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PART A

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PART A

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

NL/0232

PO -CH

PART A

Begin: 5/1/87

DD: 25 years

Ends: 13/5/87 (CONTINUED)

20/9/95

CONFIDENTIAL

FROM: R J DEVEREUX
DATE: 5 January 1987

1. MR MOWL ✓

2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Peretz
Mr Scholar
Mr Watts
Mr Ritchie

This continues the pattern of recent months, with borrowing coming out lower than expected, largely as a result of higher than expected receipts. Difficult questions are raised, particularly on the monthly profile of corporation tax. We are examining these urgently in conjunction with Inland Revenue.

*E.F.M.
v/i*

CGBR(O) & CGBR IN DECEMBER

1. The provisional outturn for the CGBR(O) in December is a surplus of £1.3 billion. This is £1.2 billion higher than the surplus of £0.1 billion forecast last month. The main factors are higher Inland Revenue receipts (by £0.9 billion see paragraph 2), and lower net payments to the EEC (by £0.1 billion). It also appears that supply expenditure may have been lower than forecast. The estimate of the outturn is subject to revision before publication on Monday 19 January.

2. Complete information on the additional Inland Revenue receipts is still to come. However, it seems that about £0.7 billion of these additional receipts were due to mainstream Corporation Tax. At present Inland Revenue believe at least half of this to be early payment of tax due in January; certainly British Gas surrendered over £0.3 billion of CTDs before Christmas in settlement of tax due on 1 January. We will not have a full picture of Corporation Tax receipts until at least February. In the meantime, we will be examining the figures critically in conjunction with Inland Revenue.

3. The other additional receipts may be due to PAYE, with perhaps half (£0.1 billion) representing a genuine increase in receipts and the rest due to timing (ie. companies making payments in December rather than using the Christmas break to delay payments to January).

CONFIDENTIAL

4. In the first 9 months of 1986-87 the CGBR(O) was £5.9 billion, £1.2 billion below the Budget profile. The main factors are:

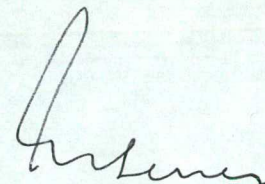
CGBR(O) April-December (£ billion)
(receipts -, payments +)

	Budget Profile	Outturn	Outturn less Budget
Non-oil Taxes	-67.3	-69.5	-2.2
Oil Taxes and Royalties	- 3.5	- 2.5	+1.0
NIC's	-15.9	-16.3	-0.5
Supply and other expenditure	90.7	91.4	+0.7
Debt Interest (net expenditure)	6.0	6.0	+0.1
Privatisation proceeds	- 2.9	- 3.2	-0.3
CGBR(O)	7.1	5.9	-1.2

- among non-oil taxes VAT and corporation tax more than account for the excess over Budget profile
- about £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 to 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high
- the overrun on supply and other expenditure is more than accounted for by social security (£0.5 billion) and net EC payments (£0.3 billion)
- the timing of privatisation proceeds in the Budget profile is fairly arbitrary and departures from the profile are not particularly meaningful.

5. On-lending to local authorities and public corporations in December totalled £0.2 billion. The CGBR in December was therefore a £1.1 billion, bringing the total since 1 April 1986 to £9.6 billion.

6. Further analysis of the outturn in December will be given in the next Ministerial note on the PSBR in two weeks' time.


R J DEVEREUX

CONFIDENTIAL

CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	December 1986			April-December 1986			April-December 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 4.9	+ 4.0	+ 0.9	+ 38.4	+ 37.9	+ 0.5	+ 36.0
Customs and Excise	+ 3.3	+ 3.4	- 0.1	+ 30.8	+ 30.1	+ 0.7	+ 27.9
Other own account	- 6.9	- 7.3	+ 0.3	- 75.1	- 75.1	-	- 71.3
CGBR (O)	+ 1.3	+ 0.1	+ 1.2	- 5.9	- 7.1	+ 1.2	- 7.4
On- lending:							
- LAs	-	- 0.1	+ 0.1	- 3.6	- 4.4	+ 0.8	- 3.5
- PCs	- 0.2	- 0.2	-	- 0.1	+ 0.1	- 0.3	- 0.9
CGBR	+ 1.1	- 0.2	+ 1.3	- 9.6	- 11.4	+ 1.8	- 11.8

+ indicates a net receipt, or difference which reduces the CGBR.

- indicates a net payment, or difference which increases the CGBR.

CONFIDENTIAL

Page

FROM: COLIN MOWL
DATE: 9 January 1987

1. MR CASSELL
2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Sedgwick o.r
Mr Scholar
Mr Ritchie
Mr Devereux
Dr Clark

*passed
to Dr
Clark.*

*Thanks,
in present
we will need to
stress X.
M.*

PSBR IN DECEMBER

1. The first provisional outturn for the PSBR in December is a net repayment of £1.1 billion. Last month's forecast was for borrowing of £0.3 billion (see table 1 attached). The average of the half a dozen market forecasts currently available is a small net repayment - the range is borrowing of £¼ billion to a repayment of £¾ billion.

2. As the first provisional outturn has been produced a day earlier than normal, ahead of Chevening, it is even more subject than usual to revision before publication at 11.30am on Monday 19 January. This month there is a further uncertainty - worth £100 million at most - arising from the transfer of British Gas to the private sector. This uncertainty should be resolved by publication date when more information will have been received.

3. The undershoot on last month's forecast is more than accounted for by an undershoot on the CGBR(0). The central government surplus of £1.3 billion reported in Mr Devereux's minute of 5 January has now been revised up to a surplus of £1.6 billion. This reflects an upward revision to the estimate of the change in central government bank deposits, associated with an unusually large value of cheques in the clearing system destined for Inland Revenue. The increase in deposits is likely to be unwound in January, increasing borrowing in that month.

4. In the first nine months of 1986-87 the PSBR was provisionally £4.6 billion, £2.8 billion lower than the Budget profile. Borrowing by all three sectors is below profile. Table 2 attached summarises the position.

5. Although we have not yet had time to absorb fully the December figures they appear broadly consistent with the assessment in the note attached to Mr Davies' minute of 8 January (Winter Forecast: Preliminary Indications) that the PSBR in 1986-87 as a whole could be about £6 billion.

6. The monthly note, presenting updated estimates for December, will be circulated next Friday, 16 January. As is usual at this time of year the note will not contain any forecasts. The next assessment of the prospects for the next three months, and thus 1986-87 as a whole, will be given in the report on the economic forecast to be circulated on 23 January.

Colin Mowl

COLIN MOWL

CONFIDENTIAL & PERSONAL

TABLE 1

£ billion

	December 1986			April-December 1986			April-December 1985
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget forecast	Difference	Outturn
CGBR(O)	- 1.6	- 0.1	- 1.5	5.5	7.1	- 1.6	7.3
LABR	0.3	0.3	- 0.1	- 0.2	0.5	- 0.6	0.4
PCBR	0.2	0.1	0.2	- 0.7	- 0.1	- 0.6	- 0.1
PSBR	- 1.1	0.3	- 1.4	4.6	7.4	- 2.8	7.6

CONFIDENTIAL & PERSONAL

TABLE 2

PSBR APRIL-DECEMBER* - £ billion

(receipts -, outlays +)

	Budget Profile	Outturn	Difference between outturn and Budget Profile	
			£b	%**
<u>CG Receipts</u>				
Non-oil taxes	-67.3	-69.5	-2.2	-3
Oil taxes and royalties	-3.5	-2.5	+1.0	+28
NIC's	-15.9	-16.3	-0.5	-2
Privatisation proceeds	-2.9	-3.2	-0.3	-10
Other receipts	-0.1	-0.5	-0.4	-
<u>CG Outlays</u>				
Supply and other expenditure	90.7	91.4	+0.7	+1
Debt interest (net expenditure)	6.0	6.0	+0.1	+2
CGBR(O)	7.1	5.5	-1.6	-
LABR	0.5	-0.2	-0.6	-
PCBR	-0.1	-0.7	-0.6	-
PSBR	7.4	4.6	-2.8	-

* figures may add due to rounding

** a dash indicates that percentage changes are not meaningful

CHIEF SECRETARY

FROM: A Turnbull
DATE: 9 January 1987

cc Chancellor
FST
MST
EST
Sir P Middleton
PEX
HEGs
Mr Culpin
Miss O'Mara
Mr Tyrie

BRIEFING FOR PUBLICATION OF 1987 PUBLIC EXPENDITURE WHITE PAPER

I attach a briefing package for publication of the PEWP at 12.00 noon next Wednesday. We will supplement/amend it as necessary in the light of any comments you may have.

2. The package contains:

- (i) some draft speaking notes for your use at the press conference (these could be issued as a press release but this has not been our normal practice and may not add much). We have attempted to build as much as possible of the 'good news' into this note.
- (ii) A note on 'bad news' items. This includes not only awkward items which will be revealed for the first time but also difficult points which were around at the time of the Autumn Statement but which have not been picked up. The only genuine new items in the list are the RDG moratorium (to be announced by an arranged PQ at 3.30 pm on Wednesday); the 6.7 per cent increase in running costs in 1986-87 (the published limits over last year's outturn) and the fact that despite the £1 billion increase over plans, the level of capital spending in 1987-88 is still 6 per cent lower in real terms than the outturn for 1986-87. Most of the remaining difficult points are assumptions we want to keep hidden but which journalists may try to work out, eg the child benefit

As you (AA) have spotted, we can't do. We cannot (x strike) draw on the assets of capital - vt px. We have council sales from last year. You will be bit.

uprating and prescription charges.

not attached

- (iii) A summary brief covering key facts and figures, bull points and some key defensive points.
- (iv) Detailed briefs covering general topics (the A series) and departmental spending (the B series).

4. The Chief Whip's Office are alerting the Opposition to the timing of the release and we will make arrangements for your office to send advance copies to the Opposition and to Mr Higgins shortly before release. We are alerting the TCSC to the publication date and time, and Mr Culpin is inviting the Press to the press conference. A draft PQ is being put to you for clearance, to be tabled on Monday and answered on Tuesday.

5. Treasury divisions are contacting departments about the issue of Press Notices. We will let you know next week how many Press Notices will be issued.

6. The price of Volume I will be £5.20 (£4.80 last year) and that of Volume II £22 (£20) - an increase of 10 per cent. They represent real increases but the document is slightly longer than last year (451 pages against 434), but also better in quality. Also we prevailed on HMSO last year not to raise the price the full extent justified by the improved graphics and typeface but to move over two years and as a consequence a loss was made. You can argue that compared with 1984, Volume I actually costs less (it was £5.65) and Volume II has roughly doubled in price from £11.50, but gone up 2½ times in size.

AT

A TURNBULL

OPENING SPEAKING NOTE FOR THE CHIEF SECRETARY AT PEWP PRESS CONFERENCE

One of the consequences of increasing the information on public expenditure at the time of the Autumn Statement is that the White Paper, when it comes out in January, contains less that is new. The White Paper is a very important document, being the most comprehensive statement by the Government, not only of what it plans to spend, but also of what the country is getting for the money.

2. The main messages, summarised in Volume I, are:

- though substantial increases have been made to the planning totals, £4.7 billion in 1987-88 and £5.5 billion in 1988-89, the growth of public spending in real terms is expected to be significantly slower than the growth of the nation's income.

- In consequence, the Government's fundamental objective of reducing public spending as a proportion of national income remain. General government expenditure as a proportion of GDP has been falling over the past 4 years and this trend will continue, taking the ratio back to the level of the early 1970s. There will be no increase in borrowing this year or next.

- X | The growth of public spending (general government expenditure excluding privatisation proceeds) in real terms is being gradually brought down; from 3 per cent in the decade to 1987-79; 2¼ per cent in the four years to 1982-83; 1¾ per cent in the four years since then; and just over 1 per cent is planned over the next three.

even excluding privatisation proceeds, the growth in general government expenditure has come down

- The White Paper sets out the changing pattern of public spending compared to previous plans. Extra funds have again been allocated to priority services: these include health, education and law and order. Further provision, around £1 billion in 1987-88,

has been added to plans for capital spending including substantial increases for housing, schools and roads. Increased provision has also had to be made for the costs of some demand-led programmes such as social security.

3. In addition to reinforcing these main themes, the White Paper also provides new information on:

- the plans for departmental running costs, which will be translated into running cost limits in the main Estimates. Between the 1985-86 outturn and the currently announced limits for 1986-87, running costs will have increased by 6.7 per cent and are expected to increase by a further 4.5 per cent in 1987-88. The running costs control system reflects the Government's determination to exert a downward pressure on administrative costs in a way which is consistent with changes in financial management.
- Manpower numbers. The plans for 1 April 1988 are within the target set of 590,000, a fall since 1979 of nearly 20 per cent.
- Capital expenditure. As requested by the TCSC, the plans for capital spending, in total around £22 billion in 1987-88 representing an increase of over £1 billion over previous plans, are now broken down by department. The increase over previous plans includes £450 million extra for housing, £77 million for roads, £60 million for schools, £20 million for prisons and £310 million for nationalised industry investment.

4. But the most important contribution of the White Paper is the report it provides, across the whole range of public spending, on what is being done to get better value for money. Each chapter in Volume II now represents a brief departmental report, providing not only an account of what money is to be spent, but also of what outputs are being achieved. Increasing emphasis is being

put not just on measures of output - eg number of treatments provided, miles of road built, acres of derelict land reclaimed, training places provided, but also measures of performance which relate to the outputs being achieved either to their costs or to targets previously set. For example, the lower costs of administration in relation to taxes collected, or benefits paid; the falling real costs of road construction; the reduction in the unit costs of the electricity industry; the savings being made in defence procurement by greater use of competition (for specific examples to quote see Annex).

6. Finally, let me draw your attention to the improvements made in this White Paper.

- I have mentioned the more detailed presentation of the capital expenditure figures.
- Part 2 now includes a section providing historical figures.
- Part 4 on local authority expenditure makes clearer not just what local authorities are spending but also how it is financed.
- The departmental chapters provide more measures on output and performance - the total is up from 1,200 to 1,800 - and also more of it is forward looking.

6. So the main messages of this White Paper are:

- the fall in public spending as a proportion of national income will continue;
- but pursuit of better value for money is increasing and improving the services delivered.

EXAMPLES OF OUTPUT, PERFORMANCE AND VALUE FOR MONEY

- Department of Transport renewed the equivalent of 240 miles of motorway and trunk roads in 1985-86, 20 per cent more than in 1980-81.
- Treatments provided by hospitals and community health services up by 19-20 per cent between 1978 and 1985.
- More than 230,000 homes of pensioners and low income households insulated under the community insulation programme.
- MOD has increased from 46 per cent in 1984-85 to 64 per cent in 1985-86 the value of contracts placed by competition. Competition saved £20 million on the estimated cost of three submarines.
- Since the beginning of 1986 road prices have fallen in real terms by about 24 per cent, so you now get four miles for what would have bought three in 1980.
- Department of Employment chapter sets out numbers covered by employment measures (Table 3.7 15) and their unit costs (Table 3.7 16).
- Targets set include:
 - 5 per cent reduction in value of MOD's central depot stockholdings and 25 per cent reduction in non-operational energy bill;
 - removing ½ million surplus school places over next three years;
 - increase number of hip replacement operations from 10,000 to 50,000 by 1990.

- Value for money initiatives have achieved:

- savings of £300 million a year for efficiency scrutinies;
- £390 million from NHS cost improvement programme;
- £100 million a year from competitive tendering in central government and the NHS;
- £75 million improvements in purchasing in government departments.

The Treasury will shortly be publishing a Working Paper of case studies which show how use of output and performance measures is contributing to better management in departments.

BAD NEWS/HIDDEN ASSUMPTIONS

The bracketed passages in normal type are confidential and should not be used in answering questions. The line to take is set out in bold type.

1. RDG moratorium - see separate note attached.
2. Running costs increase of 7.6 per cent forecast in 1986-87
1986-87 plans allowed for 5.8 per cent increase, reflecting new resources eg for prosecution service. Subsequent increases agreed for workload in DHSS and Budget employment measures giving increase in limits of 6.7 per cent. Further pressures have arisen eg increased cost for defence personnel as deutschmark strengthens; we are still looking to offset those expected increases within limits.
3. Manpower numbers above 1987 target temporary rise above plan as priority services eg prosecution service and employment services rise before savings planned elsewhere take effect. 1988 target unchanged.
4. Capital spending to fall in real terms (see summary table). Forward year figures provide for no allocations from the Reserves (which have occurred in past years). The plans show continuing capital spending of about £20 billion in real terms following an increase in provision of £1 billion (cash) for 1987-88 and 1988-89.
5. Nationalised industry prices. [Average water charges expected to rise 2.5% in real terms in 1987. Electricity prices in 1987-88 assumed to remain unchanged.] **Forecast to rise for industries as a whole by only 1¾ per cent in year to Q4 for 1987. Electricity no net change in 1986-87. Future prices to be decided by industry. May be able to meet financial target for 1987-88 without tariff increases. Water charges to be determined by authorities; prices may need to rise to finance substantial investment programme - £1 billion a year.**

RDG2 MORATORIUM

White Paper says

"The transitional bulge in total RDG awards resulting from the overlap of the 2 schemes [RDGI and RDGII] have proved to be of a greater magnitude and extending over a greater period than anticipated. In order to spread this expenditure, further moratoria have been imposed on payments of RDG, to cover new RDG as well as old."

Facts

A four month moratorium on payments of RDGI has been in force since 1985. A four month moratorium on payments of RDGII will come into force immediately after Mr Channon's announcement of it in a written reply to a PQ on the afternoon of 14 January. The new moratorium is expected to yield savings of £20-25m in 1987-88.

Line to Take

- New moratorium does not signal any change in Government's commitment to an effective regional policy.
- Provision for Regional Assistance expenditure by DTI/SO/WO in 1987-88 some £36m up on previous plans (£419m as against £383m). But transitional bulge in total RDG awards larger than anticipated; and moratorium intended to help spread payments.
- (If pressed) Secretary of State for Trade and Industry will announce details later today (14 January).
- (Regional Assistance inadequate given current levels of unemployment and differences between North and South). 1984 review of regional policy took full account of the employment patterns. As a result of the review, assistance is now more clearly linked to job creation producing a higher number of

jobs for given level of spend. But targetting has allowed reduction in overall level of regional assistance expenditure over past 2 years. Now plan to maintain in real terms between 1987-88 and 1989-90. Important to remember that this is just one of range of Government programmes which help generate employment.

*That, this X is, from the
task, 2-fig; supply (as it does)
is improved to*

PRESS CONFERENCE ON PUBLIC EXPENDITURE WHITE PAPER

*That performance
more than tax and
budget rates are raised. Mr.*

CHIEF SECRETARY'S SPEAKING NOTE

Cx
Paper on
ON PCWP
press conf
briefing etc

The White Paper is a very important document, being the most comprehensive statement by the Government, not only of what it plans to spend, but also of what the country is getting for the money.

There are two main themes to the White Paper:

- consistency of achievement in our objectives for public spending, both in relation to the overall size of the programme and in priorities;
- effective management of public spending and continuing progress in getting value for money.

The main points, which illustrate these themes, are:

Overall size

- though we have been able to make substantial increases to the planning totals because of the success of our economic policies, £4.7 billion in 1987-88 and £5.5 billion in 1988-89, the growth of public spending in real terms will be significantly less than the growth of the nation's income.
- In consequence, the Government's fundamental objective of reducing public spending as a proportion of national income remains. General government expenditure as a proportion of GDP has been falling over the past 4 years and this trend will continue, taking the ratio back to the levels of the early 1970s.
- There will be no increase in borrowing this year or next. The White Paper confirms the Chancellor's statement at the time of the Autumn Statement that the PSBR in 1987-88 will be held to 1¼ per cent of national income.

- The growth of public spending in real terms is being gradually brought down; even excluding privatisation proceeds, the growth in general government expenditure has come down from 3 per cent in the decade to 1978-79; 2½ per cent in the four years to 1982-83; 1½ per cent in the four years since then; and just over 1 per cent is planned over the next three.

Priorities

- The White Paper sets out the changing pattern of public spending compared to previous plans. Extra funds have again been allocated to priority services: these include health, education and law and order. Increased provision has also been made for the costs of some demand-led programmes such as social security, where important improvements have been made to the systems for forecasting social security expenditure.
- The provision for capital spending in 1987-88 has been increased over previous plans by over £1 billion, bringing the total to £22 billion. Last year's White Paper signalled that part of the Reserves for future years might be allocated to capital and as can be seen this has been done. The increase over previous plans includes an extra £450 million for housing, £77 million for roads, £65 million for schools and £310 million for nationalised industries.

Value for money

One of the most important contributions of the White Paper is the report it provides, across the whole range of public spending, on what is being done to get better value for money. Each chapter in Volume II now provides a proper departmental report, containing not only an account of what money is to be spent, but also of what outputs are being achieved. The departmental chapters provide more measures on output and performance - the total is up from 1,200 to 1,800 - and also more of it is forward looking.

X | Increasing emphasis is being put not just on measures of output - eg number of treatments provided, miles of road built, acres of derelict land reclaimed, training places provided, but also measures of performance which relate to the outputs being achieved either to their costs or to targets previously set. For example, the lower costs of administration in relation to taxes collected, or benefits paid; the falling real costs of road construction; the reduction in the unit costs of the electricity industry; the savings being made in defence procurement by greater use of competition.

Finally, you will expect me to say something about what I consider to be the likely outturn for the current year, 1986-87. This was put at £140.4 billion in the Autumn Statement. Despite some movements, both up and down in individual programmes, I see no reason to change our assessment of the total. There are still uncertainties at this stage about the final outturn and you will remember that last year I also made no change between Autumn Statement and the White Paper, though in the event the planning total turned out over £½ billion lower.

The picture in 1986-87 is still as set out in the Autumn Statement. Most of the increase is accounted for by spending over which the Government has only indirect influence or which is demanded. Of the £5.8 billion which has been added to programmes, £2.7 billion is accounted for by local authority current spending, £0.2 billion by local authority capital spending, £1.6 billion by social security, and £0.4 billion by payments to the European Community. The additions to cash limited programmes have been very small. It is worthy of note that a 10 per cent overspend in local authority current expenditure is being contained within a 1 per cent increase for the planning total.

In conclusion, the main messages of this White Paper are:

- the fall in public spending as a proportion of national income will continue;
- the pursuit of better value for money is increasing and improving the services delivered.

So we are continuing to get the benefits of our economic policies, consistently and steadily applied, on the one hand, and of efficiency and competence in carrying our expenditure plans through on the other.

L1 PWP
FROM: MOIRA WALLACE
DATE: 12 January 1987

Andrew - to be aware

cc PPS

The Chancellor might like to have this handy on precedents.

cc Mr Grieve
Mr Savage
Mr Edwards IDT

MR TURNBULL

Jim Butler
12/1/87

TIMING OF PEWP PRESS CONFERENCE

You asked if we could find any precedent for PEWP publication at noon. IDT have come up with the attached list which shows that we published at noon in 1984 and at 11.15/11.30 from 1978 to 1982.

AB
plus
with
hospital:
precedents
with
G.P.S.

Moira Wallace

MARA WALLACE

TIMING OF PCWP CONFERENCES 1976 → 86.

- 1/ 1986 - 3-30 pm.
- 2/ 1985 - 3-30 pm.
- 3/ 1984 - NOON
- 4/ 1983 - 3-30 pm.
- 5/ 1982 - 11-30 am.
- 6/ 1981 - 11-30 am.
- 7/ 1980 - 11-30 am.

- 8/ 1979 - 11-15 am.
- 9/ 1978 - 11-30 am
- 10/ 1977 - 4-30 pm
- 11/ 1976 - 4-00pm

S. Edwards
12/1

From: COLIN MOWL
16 January 1987

1. MR SEDGWICK

*P.N.S
16-1*

→ 2. CHANCELLOR

Get out check on P.I.

Copy with PPS letter, attached, for:

Mr Norgrove - No. 10

cc List A

List B (distributed at 11.30am, 19 January)

Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Scholar
Mr L Watts
Mr Devereux
Mr Ritchie
Dr Clark

Chief Secretary
Financial Secretary
Minister of State
Mr F E R Butler
Mr Moore
Mr Odling-Smee
Mr Turnbull
Mrs Butler
Mr Grice

Miss O Mara
Mr C W Kelly
Mr Williams
Mr Briscoe
Mr Cropper
Mr M Richardson
Mr Ross Goobey
Mr Tyrie
Mr Calder - IR
Mr Wilmott - C and E

MONTHLY NOTE ON THE PSBR

1. I attach a report on the PSBR outturn for December, and a comparison with the forecast made a month ago. The outturn will be published by press notice at 11.30am on Monday 19 January.

Colin Mowl

COLIN MOWL

PUBLIC SECTOR BORROWING

Summary

- The PSBR for December is provisionally estimated as a net repayment of £1.2 billion. Last month's forecast was for net borrowing of £0.3 billion. The difference is due mainly to higher than forecast Inland Revenue receipts, especially corporation tax. City forecasts of the PSBR outturn range from borrowing of £¼ billion to a repayment of £¾ billion.
- Borrowing in the first nine months of 1986-87 (£4.5 billion) was £2.9 billion below the Budget profile (Chart 1). Borrowing by all three sectors is running below profile. The PSBR was £3.1 billion lower than in April-December 1985 (Chart 2).
- The usual forecasts for the PSBR in the next three months are not presented in this note; revised monthly profiles to the end of the financial year are being constructed as part of the current forecast round. However, *there is clearly* ~~there remains~~ a distinct possibility that the 1986-87 PSBR will undershoot the Budget forecast.

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

Chart 1 : Comparisons with Budget profiles for 1986-87

£ billion cumulative

— = Estimated outturn in 1986-87
 = Budget profile

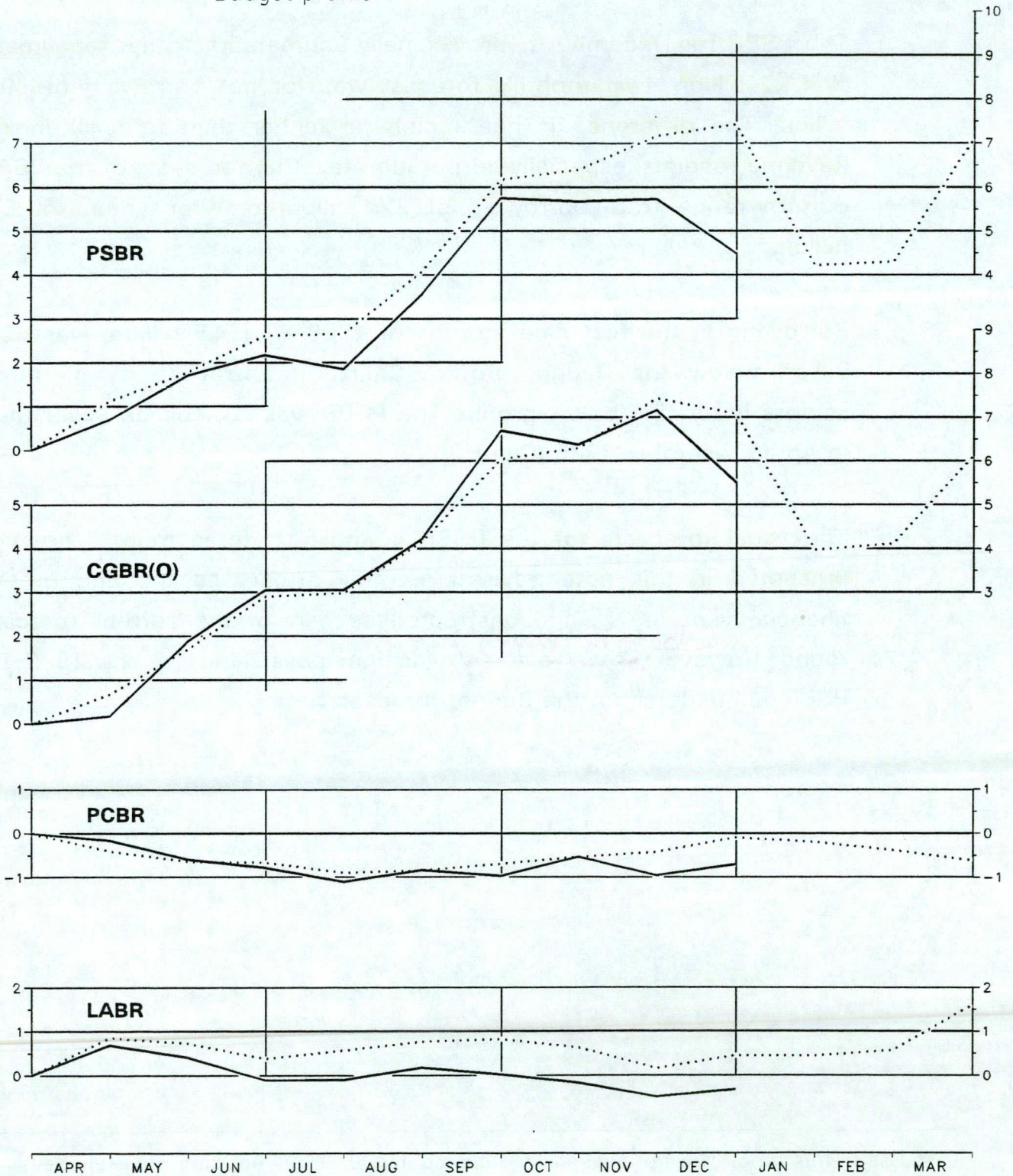
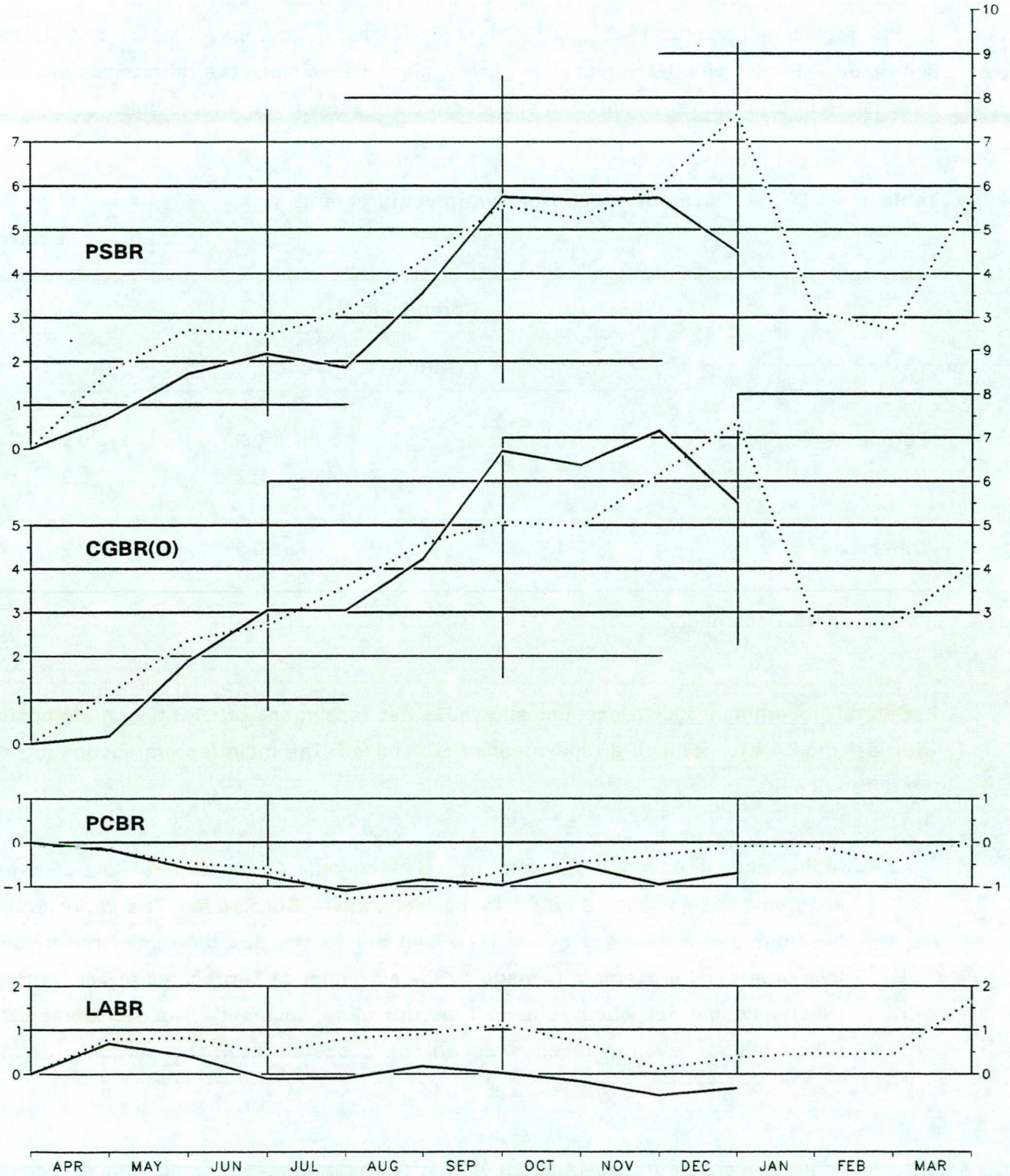


Chart 2: Comparisons with last year's outturns

£ billion cumulative

— = Estimated outturn in 1986-87
 = 1985-86 outturn



Borrowing in December

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in December is a repayment of £1.2 billion, compared with last month's forecast of borrowing of £0.3 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

Table 1: December 1986 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.3	-0.1	0.3	0.1
Outturn	-1.2	-1.6	0.2	0.3
Difference	-1.5	-1.5	-0.2	0.2

*made on 15 December

2. Central government's own account showed a net repayment of £1.6 billion, compared with last month's forecast of a repayment of £0.1 billion. The main factors accounting for the difference are:

- Higher Inland Revenue receipts (by £0.9 billion). About £0.7 billion of these additional receipts are thought to be Mainstream Corporation Tax, representing payment of tax due in January. (Tax paid before the due date does not involve loss of interest if payment is made by the surrender of Certificates of Tax Deposit, which account for about one-half of the early payment). The remaining £0.2 billion Inland Revenue receipts cannot be allocated with any certainty at this stage, but may be income tax.
- A larger increase (by £0.4 billion) in central government bank deposits, associated with an unusually large value of cheques in the clearing system destined for

Inland Revenue. The increase in deposits is likely to be unwound in January, increasing borrowing in that month

- Lower net payments to the EEC (by £0.1 billion).

3. Local authorities borrowed £0.2 billion in December, compared with last month's forecast borrowing of £0.3 billion.

4. Public corporations provisionally borrowed £0.3 billion, £0.2 billion more than last month's forecast.

April to December

(Outturn compared with Budget forecast)

Table 2: Total April-December borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	7.4	7.1	0.5	-0.1
Outturn	4.5	5.5	-0.3	-0.7
Difference	-2.9	-1.6	-0.8	-0.6

5. The cumulative PSBR for the first nine months of 1986-87 was £4.5 billion. This is £2.9 billion below the Budget profile (see Chart 1 and Table 2) and £3.1 billion lower than in April-December 1985 (Chart 2). Borrowing by all three sectors is below profile.

6. Cumulative borrowing in April to December on central government's own account was £1.6 billion below the Budget profile. The table overleaf shows our present view of differences on individual components.

Table 3: CGBR(O) April-December: Comparison with Budget profile

£billion (- indicates lower borrowing)

Non-oil taxes	-2.2
Oil taxes and Royalties	+1.0
National Insurance Contributions	-0.5
Supply and other expenditure	+0.7
Net debt interest	+0.1
Privatisation proceeds	-0.3
Other	-0.4
Net effect on CGBR(O)	-1.6

- Among non-oil taxes, VAT and Corporation Tax more than account for the excess over the Budget profile
- About £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 into 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high
- The overrun on Supply and other expenditure is accounted for by social security (£0.5 billion), grants to British Coal (£0.4 billion) and net EC payments (£0.3 billion), partly offset by lower trading expenditure by ECGD (£0.2 billion) and other changes
- The timing of privatisation proceeds in the Budget profile is fairly arbitrary and departures from the profile are not particularly meaningful.

7. Table 4 compares the outturn for Consolidated Fund Revenues under various headings over April-December (column (iv)) with the FSBR forecasts for this 9-month period derived from Budget profiles (column (iii)). The table is in terms of percentage changes on the

CONSOLIDATED FUND REVENUES - per cent changes on year earlier

	FORECAST FOR 1986-87		APRIL-DECEMBER 1986	
	(i) FSBR(a)	(ii) Autumn Statement IAF (b)	(iii) FSBR	(iv) Outturn
1. Total Inland Revenue	1½	-	5	6½
of which: Income Tax	8½	8	15½	15
Corporation Tax (d)	14½	22½	16½	44½
North Sea taxes (c)	-52½	-67	-50	-67½
Other (Stamp Duties and Capital Taxes)	9	22½	11½	24½
2. Customs and Excise	8½	9	8	10½
of which: VAT	7½	10½	6½	12½
Specific Duties	9½	8	9½	8
Other (e)	8	10	12	12½
3. Vehicle Excise Duty	3	1	3½	5½
4. Asset Sales	90	75½	27½	41
5. Other Consolidated Fund Revenue*	-31½	-38½	-34½	-26½
6. Timing Adjustment (f)	-	100		
7. TOTAL CONSOLIDATED FUND REVENUE	2½	2½	4	6½
Memorandum Items:				
Non North Sea Taxes	10	10½	11½	15½
North Sea Oil Taxes and Royalties	-54½	-68	-52	-66

* This includes oil royalties (significantly different from 1985-86), also EC refunds, coinage receipts, and CFERs (all significantly different from 1985-86 for purely accounting reasons, having no effect on the CGBR(0)). Thus comparisons with 1985-86 will be of little value

(a) using 1985-86 outturn as estimated in 1986 FSBR

(b) using 1985-86 outturn as estimated in 1986 Autumn Statement

(c) Payments of PRT, advance PRT and North Sea corporation tax but excluding royalties

(d) Includes onshore and North Sea ACT

(e) Includes difference between receipts and payments to Consolidated Fund for April to December.

(f) Reflects privatisation proceeds paid initially to Paymaster General and then to Consolidated Fund

same period in 1985. The table shows that increases in VAT and Corporation Tax have been much greater than expected at Budget time. Also shown on the same basis are the whole year forecasts for 1986-87 in the FSBR (column (i)) and Autumn Statement (column (ii)); comparing these two columns shows the extent to which the FSBR forecast was revised for the Autumn Statement. For both VAT and Corporation Tax, the forecasts were revised upwards, but in neither case was the revision as large as the April-December outturn to profile comparison might suggest.

8. Local authorities repaid £0.3 billion in April-December, compared with forecast borrowing of £0.5 billion in the Budget profile. Up-to-date information on local authorities' spending and income is sparse. Two possible explanations of lower borrowing are higher than expected capital receipts from council house sales, and the additional grant which the authorities have received from grant recycling. Nevertheless, local authority borrowing is erratic, and part of the undershoot could be a matter of timing. A large proportion of annual borrowing is usually undertaken in the final month of the financial year.

9. Public corporations made a net repayment of debt of £0.7 billion in April-December, a higher repayment (by £0.6 billion) than in the Budget profile. The limited information available suggests that lower than expected borrowing reflects lower than expected capital spending rather than better trading performance, although in recent months some nationalised industries may have benefitted from buoyant consumer spending.

Table 5: Borrowing Requirement outturns April-December
(Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.0	<i>0.7</i>	1.7	<i>1.0</i>	-0.3	<i>-0.1</i>	-0.4	<i>-0.2</i>
Jun	0.5	<i>0.8</i>	1.2	<i>1.2</i>	-0.5	<i>-0.3</i>	-0.2	<i>-</i>
Jul	-0.3	<i>-</i>	-	<i>0.1</i>	-	<i>0.2</i>	-0.3	<i>-0.2</i>
Aug	1.7	<i>1.4</i>	1.2	<i>1.2</i>	0.3	<i>0.2</i>	0.3	<i>0.1</i>
Sep	2.2	<i>2.1</i>	2.5	<i>1.9</i>	-0.1	<i>0.1</i>	-0.1	<i>0.2</i>
Oct	-0.1	<i>0.2</i>	-0.3	<i>0.3</i>	-0.2	<i>-0.2</i>	0.4	<i>0.2</i>
Nov	0.1	<i>0.8</i>	0.8	<i>1.1</i>	-0.3	<i>-0.5</i>	-0.4	<i>0.1</i>
Dec	-1.2	<i>0.3</i>	-1.6	<i>-0.4</i>	0.2	<i>0.3</i>	0.3	<i>0.3</i>
Cumulative								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.7	<i>1.8</i>	1.9	<i>1.7</i>	0.4	<i>0.7</i>	-0.6	<i>-0.6</i>
Jun	2.2	<i>2.6</i>	3.1	<i>2.9</i>	-0.1	<i>0.4</i>	-0.8	<i>-0.7</i>
Jul	1.9	<i>2.7</i>	3.1	<i>3.0</i>	-0.1	<i>0.6</i>	-1.1	<i>-0.9</i>
Aug	3.6	<i>4.1</i>	4.2	<i>4.2</i>	0.2	<i>0.8</i>	-0.8	<i>-0.8</i>
Sep	5.8	<i>6.2</i>	6.7	<i>6.0</i>	-	<i>0.8</i>	-1.0	<i>-0.7</i>
Oct	5.7	<i>6.4</i>	6.4	<i>6.3</i>	-0.2	<i>0.6</i>	-0.5	<i>-0.5</i>
Nov	5.7	<i>7.2</i>	7.2	<i>7.4</i>	-0.5	<i>0.2</i>	-1.0	<i>-0.4</i>
Dec	4.5	<i>7.4</i>	5.5	<i>7.1</i>	-0.3	<i>0.5</i>	-0.7	<i>-0.1</i>

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Table 6: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile

£ billion

	1985-86	1986-87		Differences from	
	Outturn	Budget profile	Latest outturn	1985-86 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	1.8	1.1	0.7	-1.1	-0.4
May	1.0	0.7	1.0	-	0.3
Jun	-0.1	0.8	0.5	0.6	-0.4
Q2	2.6	2.6	2.2	-0.4	-0.4
Jul	0.5	-	-0.3	-0.9	-0.4
Aug	1.2	1.4	1.7	0.5	0.3
Sep	1.2	2.1	2.2	1.0	0.1
Q3	2.9	3.6	3.6	0.6	-
Oct	-0.3	0.2	-0.1	0.2	-0.3
Nov	0.7	0.8	0.1	-0.7	-0.7
Dec	1.7	0.3	-1.2	-2.9	-1.5
Q4	2.1	1.3	-1.2	-3.3	-2.5
Jan	-4.5	-3.2			
Feb	-0.4	0.1			
Mar	3.0	2.8			
Cumulative					
Apr	1.8	1.1	0.7	-1.1	-0.4
May	2.7	1.8	1.7	-1.0	-0.1
Jun	2.6	2.6	2.2	-0.4	-0.4
Jul	3.1	2.7	1.9	-1.3	-0.8
Aug	4.3	4.1	3.6	-0.8	-0.5
Sep	5.6	6.2	5.8	0.2	-0.4
Oct	5.3	6.4	5.7	0.4	-0.7
Nov	6.0	7.2	5.7	-0.3	-1.4
Dec	7.6	7.4	4.5	-3.1	-2.9
Jan	3.1	4.2			
Feb	2.7	4.3			
Mar	5.8	7.1			

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Table 7: Central government transactions – December

£ billion

	forecast	outturn ⁽¹⁾
Receipts		
<i>Consolidated Fund</i>		
Inland Revenue	4.0	4.9
Customs and Excise	3.4	3.3
Other ⁽²⁾	2.4	2.3
<i>National Loans Fund</i>		
Interest etc. receipts	0.6	0.6
Total Receipts	10.4	11.2
Expenditure		
<i>Consolidated Fund</i>		
Supply expenditure ⁽³⁾	8.6	8.6
Adjustment to Supply Services basis ⁽⁴⁾	-	0.4
Other	0.5	0.5
<i>National Loans Fund</i>		
Service of the national debt	0.6	0.6
Net lending	0.3	0.1
Total Expenditure	9.9	10.3
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.6	-0.5
CGBR	0.2	-1.4
On-lending	0.3	0.2
CGBR(O)	-0.1	-1.6

⁽¹⁾Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

⁽²⁾Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

FROM: COLIN MOWL
DATE: 16 JANUARY 1987

→ PPS/CHANCELLOR

Ch
agree with
Robert (below)
AA
16/1

9 content?

*So do 1, 2, 3 have on two, or 4
stays. must be on same copy. m.*

- cc Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr Cassell
- Mr Sedgwick
- Mr Culpin
- Mr Clark

DRAFT PRESS BRIEFING ON PSBR IN DECEMBER

I attach the draft press briefing on the PSBR in December.

2. The outturn has changed only slightly since the first provisional estimate reported a week ago. The figure to be published is a repayment of £1.2 billion compared with the earlier estimate of a repayment of £1.1 billion. Although the published figure is now firm, computer problems associated with the bad weather mean that it is more likely than usual to be revised for the final money and banking press notice on 29 January (the provisional money figures on 20 January will use the same figure as in Monday's PSBR press notice).
3. The briefing continues the line the Chancellor followed in the House on 17 December in the debate on the Autumn Statement - that is, that the PSBR is clearly well on track and if anything more likely to be below than above the Budget figure. This line is pursued in a tentative way although the possibility that revenues will exceed the Autumn Statement Forecast is explicitly acknowledged for the first time (sections 2 and 5) and the possibility that local authorities and public corporations may also contribute to the potential undershoot is hinted at (sections 9 and 10). The latter point has to be approached indirectly in terms of a comparison with previous years as the Budget forecasts of the LABR and PCBR were not published.
4. I understand that the Chancellor suggested that the briefing should cover the unusual build-up in central government bank deposits in December which is likely to unwind in January, increasing borrowing in that month. We advise against this for a number of reasons:

- (i) the bank deposits figure is not given separately in the press notice and the total of which it is a part shows no signs of unusual behaviour;
- (ii) it is a complex point which it would be difficult to get over;
- (iii) the potential increase in borrowing in January from this source (less than £½ billion) is small relative to the likely public sector surplus of around £3 billion;
- (iv) the general line, that borrowing is on track but may if anything undershoot the Budget figure, is sufficiently tentative to prevent people making too much of the December figure. In addition the briefing further plays down the December figure by pointing out (section 3) that it benefited from receipts of corporation tax due in January.

rubbed

5. The monthly note on the PSBR, which is being circulated simultaneously, provides further explanation of the December outturn. As is usual at this time of year forecasts of the next three months are not given in the note although the summary refers to there remaining a distinct possibility that the PSBR in the year as a whole will be below the Budget forecast. The Chancellor agreed last month that the monthly note, with some circulation outside the Treasury, should be vaguer and more cautious than internal Treasury assessments. The next forecast for 1986-87 will be in Mr Sedgwick's report on the economic forecast to be circulated in a week's time.

6. The press notice will be published at 11.30 am on Monday. It would be appreciated if we could receive the Chancellor's comments, and those of copy recipients, by 8.30 am on Monday.

Colin Mowl

COLIN MOWL

From: JOHN CLARK
19 January 1987

See My changes on other

copy

MR CULPIN - IDT
MR LANG - CSO Press Office

cc List A

List B
(distributed at 11.30am, 19 January)

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Grice
Mr C W Kelly

Mr Mowl
Miss O'Mara
Mrs Butler
Mr Ritchie
Mr Briscoe
Mr Devereux
Mr Pickford
Mr R Evans
Mr Mansell - CSO
Mr Richardson - CSO
Mr Wright B/E
Mr Norgrove - No 10

Mr Riley
Mr Cropper
Mr C M Kelly
Mr Ross-Goobey
Mr Tyrie
Mr Ko - IR
Mr B Sexton - C and E

BRIEFING FOR 19 JANUARY PSBR PRESS NOTICE

The PSBR figures for December will be published at 11.30am on 19 January. The provisional outturns, together with figures for the first nine months of 1985-86 and 1986-87, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

Table 1: Borrowing requirement outturns £ billion

	Apr-Dec 1985	Apr-Dec 1986	December 1986
Central government on own account	7.3	5.5	-1.6
Local authorities	0.4	-0.3	0.2
Public corporations	-0.1	-0.7	0.3
PSBR	7.6	4.5	-1.2
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	11.8	9.3	-1.4

Note: Figures may not sum precisely because of rounding.

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

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
Apr	1.9	1.1	0.2	0.9	0.8	0.7	-0.4	-0.2	-0.2	2.4	1.8	0.7
May	3.2	2.4	1.9	0.8	0.8	0.4	-0.4	-0.5	-0.6	3.6	2.7	1.7
Jun	4.5	2.7	3.1	0.6	0.5	-0.1	-0.5	-0.6	-0.8	4.6	2.6	2.2
Jul	5.0	3.6	3.1	0.8	0.8	-0.1	-0.7	-1.3	-1.1	5.1	3.1	1.9
Aug	6.2	4.6	4.2	1.4	0.9	0.2	-0.7	-1.2	-0.8	6.8	4.3	3.6
Sep	6.5	5.1	6.7	1.2	1.1	0.0	-0.2	-0.6	-1.0	7.5	5.6	5.8
Oct	6.7	5.0	6.4	1.0	0.7	-0.2	0.3	-0.4	-0.5	8.0	5.3	5.7
Nov	8.5	6.2	7.2	0.8	0.1	-0.5	0.4	-0.3	-1.0	9.7	6.0	5.7
Dec	7.8	7.3	5.5	1.2	0.4	-0.3	1.3	-0.1	-0.7	10.3	7.6	4.5
Jan	5.7	2.8		0.9	0.5		1.2	-0.1		7.8	3.1	
Feb	5.1	2.7		1.3	0.4		1.3	-0.4		7.8	2.7	
Mar	6.6	4.1		2.4	1.7		1.2	0.0		10.2	5.8	

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

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(DRAFT)

1. PSBR in April-December 1986

Line to take

Provisional PSBR for first nine months of 1986-87 shows net borrowing of £4.5 billion, about £3.1 billion lower than for first nine months of 1985-86.

2. Borrowing in 1986-87

Line to take

Autumn Statement forecast was £7 billion, unchanged from 1986 Budget. Borrowing clearly well on track. Outturns to date show that, if anything, PSBR more likely to undershoot than overshoot 1986 Budget and Autumn Statement forecast, to a considerable extent as a result of buoyant revenues (see Q5). New forecast will be given in forthcoming Budget.

3. PSBR in December

Background

The (provisional) PSBR for December is for a net repayment of £1.2 billion. City forecasts range between net borrowing of £¼ billion and a repayment of £¾ billion.

Line to take

Borrowing in December was low. Borrowing reduced by first receipts from sale of British Gas (see Q4). Also possible that there was some effect from early payment of Corporation Tax due in January. Cannot read too much into one month's figures.

Change period through by C memo/ + agreed with Robert.

(about £1/2 bn)

WJ

4. Privatisation proceeds in 1986-87

Line to take

first three quarters of
as whole
Net receipts of £1.8 billion in December from first call on British Gas sale. Receipts in 1986-87 to ~~December~~ £3.2 billion. Autumn Statement had privatisation receipts in 1986-87 of £4¾ billion. *as*

5. Tax revenues

Background

Total taxes on incomes, expenditure and capital in 1986-87 forecast at £118 billion in Autumn Statement, compared with £117½ billion in Budget. North Sea revenues were forecast £1½ billion lower than in Budget, non-oil receipts £2 billion higher.

Line to take

Non-oil tax revenues more buoyant than expected at Budget time, mainly as a result of buoyant corporation tax and VAT. These more than offset lower than expected oil revenues. Now a possibility that total receipts could be higher than forecast in Autumn Statement.

6. Inland Revenue receipts

Background

Total Inland Revenue receipts in December were £4.9 billion. Total for first nine months of 1986-87 (£38.4 billion) up 6½ per cent on same period last year. Budget forecast for growth in whole of 1986-87 over 1985-86 was 1¼ per cent, very low because of drop in oil revenues. No forecast of total Inland Revenue taxes given in Autumn Statement, but stated that oil revenues expected to be £1½ billion lower, and onshore company taxes higher, than in Budget forecast.

Line to take

Receipts in first nine months of 1986-87 up 6½ per cent on April-December 1985-86. High growth April-December over same period last year (compared with Budget forecast growth for year as a whole) due partly to higher than expected corporation tax and to

higher receipts of building societies' composite rate tax in first nine months, following change in pattern of payments. Possible that early payments have been made of some corporation tax due in January.

7. Customs and Excise receipts

Background

Customs and Excise receipts in December were £3.3 billion. Total for first nine months of 1986-87 (£30.8 billion) 10½ per cent up on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 8¼ per cent. No forecast for Customs and Excise receipts given in Autumn Statement, but stated that VAT expected higher than in Budget forecast.

Line to take

Receipts in first nine months of 1986-87 were £30.8 billion, about 10½ per cent up on the same period last year. VAT receipts particularly buoyant.

8. Supply Expenditure

Background

Provisional outturn for supply expenditure in December is £8.7 billion. Total April - December 1986 (provisionally £74.5 billion) about 3½ per cent up on same period last year (£72 billion). Excluding advance EC contributions, increase is 4¼ per cent above last year. (No forecast for 1986-87 given in Autumn Statement or FSBR.) Supply has different coverage from planning total (e.g. the latter includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs market borrowing).

Line to take

Provisional estimate £8.7 billion in December. Expenditure in first nine months of 1986-87 about 3½ per cent higher than over same period last year (4¼ per cent excluding advance EC contributions).

9. Local authorities

Background

Local authorities (provisionally) borrowed about £0.2 billion in December. The first nine months of 1986-87 showed a net repayment of about £¼ billion.

No forecast of LABR in 1986-87 given in Autumn Statement or FSBR.

Line to take

Local authority net borrowing in first nine months of 1986-87 lower than average of last few years. But pattern of local authority borrowing erratic. Too early to be certain how borrowing for 1986-87 as a whole will compare with earlier years, but local authorities could borrow less than in recent years.

10. Public corporations

Background

Public corporations (provisionally) borrowed £0.3 billion in December, and repaid £0.7 billion in first nine months of 1986-87.

No forecast of PCBR in 1986-87 given in Autumn Statement or FSBR.

Line to take

Public corporations' borrowing April-December lower than average of last few years. But pattern always erratic - too early to say how borrowing for 1986-87 as a whole will compare with earlier years. But, as in the case of local authorities, public corporations could borrow less than in recent years.

John Clark (270-5030)
PSF Division, HM Treasury

3 questions

11 DOWNING STREET
WHITEHALL SW1A 2AB

Of final 1985-86 PBR of
75.8 bn, how did this break
down between CABR(0), LABR
↪ PCBR?

2. Per let me have similar
estimated breakdown for
1986-87

3. We assumed (in last budget)
that our pro let average
\$15 m Calenda 1986. What
was the actual average pro
in 1986?

PL

FROM: P N SEDGWICK
DATE: 19 JANUARY 1987

MS. RYDING

meena
Pse thank.

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Mowl
Mr Owen

PSBR etc

Your minute to me of today (copy attached)

2. The table below sets out the information requested on the sectoral components of the PSBR. For 1985-86 the table gives the estimated outturn as published in the 1986 FSBR as well as the currently estimated outturn. For 1986-87 outturns for the first nine months and our latest forecast for the year as a whole are given. The latter may change by a few £100 millions either way before the report on the economic forecast is circulated on Friday.

	CGBR(O)	LABR	PCBR	£ billion PSBR
<u>1985-86</u>				
1986 FSBR Estimate	4.9	2.1	-0.2	6.8
Outturn	4.1	1.7	0.0	5.8
<u>1986-87</u>				
April-December Outturn	5.5	-0.3	-0.7	4.5
Whole year:				
FSBR*	6.1	1.6	-0.6	7.1
Latest forecast	5.6	1.2	-1.1	5.7

*the components of the PSBR are not given in the FSBR.

3. Points to note on the forecast are:

- (i) The latest estimate for CG own account borrowing in 1986-87 assumes broad balance over the three months January to March, with a large surplus in January largely offset by a deficit in March.

(ii) LAs, in surplus so far, are expected to move into deficit in March when heavy borrowing is the norm - borrowing in March in the last two years has averaged £1½ billion.

Oil price assumptions

4. The assumption in the 1986 FSBR was of a \$15 North Sea oil producer price (on average, over time, very close to the Brent price) for financial year 1986-87 (not for calendar 1986, as you stated in your minute, since it was known at the time that the oil price had been above \$15 for part of 1986 Q1).

5. The outcome for prices is set out below.

AVERAGE N.S. PRODUCER PRICES (\$)

Calendar 1986	14.2
Financial 1986-87	
first three quarters	12.2
assumed level in 1987Q1	17
currently assumed level for whole financial year	13.4

The quarterly profile is

	NS average producer price (\$)	Brent (\$)
1986 Q1	20.1	17.7
Q2	12.4	12.8
Q3	11.1	12.4
Q4	13.2*	14.8
1987 Q1 (assumed)	17.0	17.2

Handwritten notes: A bracket groups Q2, Q3, and Q4 with an arrow pointing to 12.2. Another bracket groups Q3 and Q4 with an arrow pointing to 13.3.

* Preliminary estimate.

E. Halper
PP P N SEDGWICK

CHIEF SECRETARY

FROM: F. E. R. BUTLER

20th January, 1987.

Handwritten notes:
This ~~is~~ a Cabinet / see no value in
except, say, on an occasion -
situation in wh. Min. (see memo)
after a GB) did not know when
purpose. However, an Mr B
Cites - it
with

Handwritten notes:
suggests, there is
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claims a
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to be
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c.c. Chancellor
Financial Secretary
Minister of State
Sir Peter Middleton
PEX members

PUBLIC EXPENDITURE: DISCUSSION OF PRIORITIES

You told me recently that some colleagues had raised with you the question of opportunity for Ministerial discussion of priorities between proposals for additions to programmes, ie claims on the Reserve. I promised to let you have some thoughts on this.

2. There are two types of situation which people can have in mind when referring to priorities discussions of this sort. The most common one is discussion of priorities as part of the Survey process, ie of priorities in the forward years for which plans are being made in the Survey. A discussion of this sort was held in May 1985 at the beginning of the 1985 Survey, in response to requests from some members of the Cabinet. Such discussions, although in theory they should be helpful, often work to the disadvantage of the Treasury because the spending Ministers whose programmes are identified as having high priority invoke that fact in bidding for increases whereas Cabinet support for reductions in programmes identified as low priority ebbs away. For this reason the Chancellor decided against offering a priorities discussion in the 1986 Survey.

3. However, as I understand it, your colleagues had in mind a second sort of priorities discussion, ie a discussion of the priority between various bids on the Reserve for the current year or, following the Autumn Statement, for the year which is just about to begin and for which a firm planning total and Reserve have been set.

Handwritten notes:
But this is a pretty
disparate material, since it will be
bound to take a course
'Spending' cuts,
plans
comm.

4. This idea has an interesting background. When in 1976 Leo Pliatzky had the idea of using the Reserve - then called the Contingency Reserve - in an operational way to control additions to programmes, alongside cash limits, he envisaged that it would work in the following way. Any claim on the Reserve not accepted by Treasury Ministers could be referred to Cabinet who, it was hoped, would consider them in batches so that their relative priority could be compared. It was hoped that this would, first, involve the Cabinet in any decision to draw on the Reserve so that they would feel collectively responsible for not exceeding it and, second, set spending Ministers against each other in bidding against a fixed total instead of always supporting each other against the Treasury.

5. In the event, the procedure was not much used in this way. We have not checked all the papers but there is a note in 1979 that there had been no collective consideration of batches of claims since 1977, although I remember that between 1977 and 1979 there were periodical reports on the claims which had been agreed with a list of known bids, mainly designed to deter others from coming forward.

6. So far as Mr. Anson and I can remember, the main reasons why the procedure did not work as originally intended, were:-

- i. It was a cumbersome procedure, involving the holding up of claims which the Ministers concerned were naturally anxious to resolve. Moreover, in practice it involved the Treasury in a conflict of interest in some cases - in order to warn the Cabinet of future threats to the Reserve, we had to admit the possible success of some future claims which we were negotiating to dismiss.
- ii. In the climate of the IMF crisis in 1976 and its immediate aftermath, departments were restrained in proposing increases.
- iii. The introduction of cash limits led at first to substantial amounts of shortfall, against which any bids could be set without calling on the Reserve.

iv. The system was operated in volume terms and the amounts could therefore fluctuate not only with new forecasts of the cash but also with movements in the price index used as the deflator. Prospective claims could therefore melt away with a higher forecast of inflation and it was recognised that if some claims on the Reserve might subsequently evaporate, this would bring the system into disrepute.

7. What relevance has all this to today's conditions? Apart from the first, the difficulties encountered in 1976 onwards no longer apply. But the first difficulty - the cumbersome nature of the procedure - is still a formidable objection. And there is a new difficulty. As a result of change in 1983 to charging all increases in plans against the Reserve - including the very large, mainly uncontrollable items like local authority and social security expenditure, most of which were not charged against the Reserve in 1976 - it would be difficult to say with any precision what balance remained in the Reserve at least until late in the financial year.

8. Nevertheless, if we were faced by a number of large bids - such as those which are now emerging on space, launch aid and British Rover - at a time when we could predict with confidence that there was not likely to be sufficient in the Reserve to accommodate all of them, I could see circumstances in which it would be in the interests of the Government and the Treasury to arrange for collective consideration of the respective priorities not only of the bids on the Reserve but also of any proposals for offsetting savings that the Treasury may be able to suggest. I cannot quite envisage the present Prime Minister wanting to take such an issue in Cabinet but she might want to re-convene the Star Chamber for this purpose.

9. So while I do not see a strong case for it at this moment, I do not think that the idea should be altogether dismissed: it might have considerable merit if the circumstances were right or if a sufficient number of your colleagues wanted it.

F.E.R.B.

F. E. R. BUTLER

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FROM: JILL RUTTER

DATE: 21 January 1987

PRINCIPAL PRIVATE SECRETARY

cc:PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
PCC Members
COGPEC Members

POST MORTEM ON THE 1986 PUBLIC EXPENDITURE SURVEY: ANNEX J

The Chief Secretary discussed Annex J of GEP's paper with Mr F E R Butler, Mr Anson, Mr Monck and Heads of Expenditure groups or their representatives. This note records the discussions on appendices 1 and 2. The Chief Secretary will be having a further meeting in due course to discuss other appendices and more general issues arising.

(i) Armed Forces Allowances

Ms Seammen reported that this review was still going on. There was pressure from the services who wish to have improvements in allowances. The Treasury took the line that any improvement must be self-financing or offer net savings. In a wider context the review would offer ammunition to attack the overall level of the defence block. The Chief Secretary thought that pressures on this should be maintained and said he would be happy to intervene if necessary.

(ii) IBAP Storage strategy

Mr Burgner explained that there was a difference between the more modest aims of the consultants' report and CUP report. The

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objectives were agreed; the question now was a strategy for implementation. The Chief Secretary said that he wanted to press for definite results in 1987. He would be looking to score clear savings and would want early warning if there was any danger of the review going off course.

(iii) Prison Accommodation

Noted.

(iv) and (v): Prison Officers' Pay and Court Escorts

Mr Gilmore noted that there was much at stake in this work. They could offer a margin of savings in the next Survey. Mr Monck wondered if there was any possibility of reopening the question of the size of the prison population. Mr Gilmore thought it was unlikely that any of the radical measures to reduce the prison population would be implemented. Even tackling the remand population which now stood at 20 per cent of the prison population would not offer much relief. He did not believe that was likely to be a source of major savings. Mr Moore raised the issue of privatisation. Mr Gilmore said that serious thought was being given to this within the Home Office and there again there were possible savings at the margin. This would not be an issue for the next Survey.

(vi): Supervision of charities

The Chief Secretary did not see this as a savings item. If anything the pressures were likely to be the converse. Nonetheless it should be pursued.

(vii) Competition in Drugs

Miss Peirson explained the real objective was to start reducing the drugs bill in the family practitioner services where prescribing was much less cost-effective than in hospitals. The overall framework

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was set by the pharmaceutical price regulation scheme which would be in operation for the next two to three years. The CUP were going to become involved. The Chief Secretary said he did not believe that progress could be made on a more limited list pre-election. He would be grateful for a clear indication of the timing envisaged in this examination.

(viii) Arrangements for supplying welfare milk

Small but proceeding.

(ix): Recovery of benefit when tort damages are awarded

Miss Peirson explained that this was a DHSS initiative. The Chief Secretary said that he thought that this should be pursued as a possible option for the next Survey. It would be important that it was pursued in the context of reclaiming benefit, not abating damages which would be of no benefit in public expenditure terms.

Appendix 2: Prospective savings in the longer-term

(i) Availability for work

This had already been discussed at the morning's meeting with Lord Young. Mr Butler said that if the fall in unemployment were maintained there was a potential for quite a large savings on employment programmes. Mr Monck said he thought DE already were thinking along these lines. They were certainly looking at the future of the Community programme and seeking to get greater industrial contributions to the YTS. The Chief Secretary pointed to the importance of clawing back underspends emerging in DE.

(ii) Local authority fees and charges

Mr Hawtin explained that the ad hoc Ministerial group was about to report to E(LF). There would then be consultation with local authorities. The potential savings were quite significant. It

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was not easy however to see how this could be translated into an actual abatement of provision or Aggregate Exchequer grant for local authorities. Mr Gilmore mentioned that on the local authority front it was worth remembering that the Edmund Davies formula expired this year.

(iii) Local authority rent increases

Mr Hawtin pointed out that this interacted with the wider question of the main capital control system and how to score local authority capital spending. Mr Butler said he saw this as one of the big areas for potential savings. It is was agreed that was an area which should be kept under close scrutiny.

(iv) Major capital projects: repayment and untying

The Chief Secretary had received the summary report before Christmas. The report was now to be submitted to Permanent Secretaries. After that it would become clear whether substantive Ministerial discussion was required. One point was the speed of the changeover in departments. The changes held out the prospect of longer-term savings but there might well be running cost increases in the shorter-term.

(v) Legal aid scrutiny

Mr Gilmore said that he thought that this was going quite well as a potential offset to future bids. There were definite signs that the legal profession were now waking up to the concept of resource constraints. The Chief Secretary stressed that it was important to keep the pressure up on this.

(vii) Review of student support

The Chief Secretary thought it was in the Treasury's interest to play this one long.

(vii) Higher education and demography

Mr Gilmore pointed out that this was very long-term. The fall-off in student numbers would not emerge until the 1990s. The

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key issue was to start adjusting Education Ministers' expectations now. There was some discussion on whether it really was in the Treasury's interest to argue against any increase in participation rates. It was agreed that it was important from an industrial policy viewpoint to change the composition of the student population to have a greater bias towards science and engineering places. It was important to avoid any commitments being given which would close options e.g. on the closure of institutions.

(viii) British Library: new building

Mr Gilmore pointed out that decisions would be required on Stage III during the course of this year, although the expenditure would not fall in the Survey years.

(ix) and (x): the future of DHSS/DE local offices
and operational strategy in social security offices

Mr Monck pointed out that the Prime Minister's meeting had decided to defer action on (ix) for a year in order that the savings expected on (x) could be realised first. Miss Peirson pointed to the risks of slippage on (x) and the potential problems that would be raised for realising those savings by a move towards unification. The Chief Secretary said that there was nothing much that could be done to take this forward at this stage.

Conclusion

The Chief Secretary noted that many of these areas were worth pursuing. But in terms of actual potential savings the yields were likely ^{to be} very small. The meeting would reconvene to discuss the other appendices.



JILL RUTTER

Private Secretary

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FROM: JILL RUTTER

DATE: 21 January 1987

PRINCIPAL PRIVATE SECRETARY

CC:
 PS/Financial Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir Peter Middleton
 PCC
 COGPEC

POST MORTEM ON THE 1986 PUBLIC EXPENDITURE SURVEY

The Chief Secretary held a meeting with Mr F E R Butler, Mr Anson, Mr Monck, Mr Turnbull, Mr Gieve and Mr Gray to discuss the paper by GEP Division circulated under cover of Mr Turnbull's minute of 23 December. This notes records the conclusions reached on the main paper. I am recording separately a discussion with expenditure group Under Secretaries on prospective savings and threats in the next Survey. There was a separate discussion on RCM's paper on running costs.

Assessment of prospects in comparison with the outcome

2 It was recognised that while it was true that Survey arithmetic was dominated by non-discretionary changes, overplaying that line would undermine the Treasury position in subsequent Surveys. The Chief Secretary felt that the major message was that more needed to be done to persuade Ministers to take seriously the need to look at relative priorities.

Tactics

3 On paragraph 7, the Chief Secretary recorded his view that in the circumstances the tactic of delaying disclosure of the likely Survey outcome worked extremely well. Colleagues would note for future reference that the Treasury on this occasion had had nothing

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up its sleeve. He was getting very little criticism from colleagues. But he felt that the tactics employed in the 1986 Survey could not be repeated. It would be necessary to work out a change of tactics for the 1987 Survey. But this would depend not only on the prospects but also on the timing of a General Election.

4 On paragraph 8 the Chief Secretary commented that the Star Chamber were aware that there was a substantial overrun in prospect, though perhaps members did not work out the scale.

Procedures and Mechanics

5 There was some discussion of the way in which the Survey baseline for the third year should be set in the guidelines to be promulgated immediately after the Budget (paragraph 13 (i)). It was pointed out that there were gains from depressing the Survey baseline - in particular this had made it possible to hold down the Defence programme. It was also pointed out that there was an iteration between the uplift allowed to programme baselines in the last year of the Survey, and the Treasury's overall objective for that year. If the Survey baselines were maintained in real terms into the final year colleagues would assume that there was going to be a real terms uplift to the planning total. The Chief Secretary said that his preference at this stage was to repeat the ½ per cent real terms cut of previous Surveys. But that would be a matter for decision nearer the time.

6 On paragraph 13 (ii), Mr Turnbull explained that the aim of the proposal to allow Departments' somewhat greater flexibility in switching between sub programmes was to avoid the arguments between Departments and the Treasury over small technical changes. While not pre-empting the Treasury's right to require significant savings to be surrendered rather than redeployed. The impact would be felt at official level. The Chief Secretary said he would make a decision when Survey guidelines were drawn up.

The structure of the Survey documentation - possible 1987 arrangements

7 The Chief Secretary asked whether anything would be lost in the preparation of Volume II of the PEWP by abandoning the Survey

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report. He was assured that process of editing the material on value for money on performance indicators into the Survey report hindered rather than helped divisions. This work could be better pursued as part of the twice yearly discussions on financial management and value for money. It was therefore agreed that the existing kind of Survey report should be abandoned for the 1987 Survey and be replaced by a much shorter report setting out agreed baselines.

8 On paragraphs 16 and 26 the Chief Secretary said it was not possible, once bilaterals were under way, to devote much time to value for money issues. Nevertheless he did not want this work, whether related to the baseline or additional bids to go by default. It was agreed that if divisions were not satisfied with the outcome of their discussions with departments on value for money e.g because insufficient progress was being made in furnishing information on outputs with performance indicators or because targets being specified were not demanding enough they should refer the matter to the Chief Secretary who would write to the department concerned and if necessary call for a meeting. There was no reason why letters and meetings of this kind should be delayed until after the July Cabinet.

9 The Chief Secretary said that he believed it was right to continue with the practice introduced last year that Ministers put forward departmental bids and should support such bids with a statement of the outputs to be achieved. He thought that that had made a contribution to gaining acceptance to the Survey outcome. It was agreed that this practice should continue in the 1987 Survey.

10 While it was recognised that percentage options cuts were not a sensible approach, it was agreed that the Treasury should be more active in requiring costed reductions either by specifying a figure - as had been done on the DHSS social security programme this year - or by asking for specific options, which might have been identified in the course of the value for money scrutiny, to be costed.

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11 On paragraph 23, the Chief Secretary asked for a note to clarify problematic areas of Ministerial responsibility.

12 On paragraph 24, it was agreed that it would be impossible to avoid the Chief Secretary circulating a paper to Cabinet summarising additional bids. But, in view of the unforeseen problems this year, care should be taken to avoid any commitment on timing in Survey guidelines.

Conduct of Bilaterals

13 It was agreed that there had been advantage in settling the Department of Employment programme in July. The possibility of such settlements need to be clearly watched, if not this year then in future Survey years. The possibility of making early settlements would of course depend on whether the Treasury had more ambitious objectives than baseline settlements.

Satellite systems

14 The Chief Secretary asked for a note on the interdepartmental discussions envisaged to improve arrangements for 1987 Survey for relating LA capital allocations to provision. It was agreed that there was considerable advantage in not settling LA capital in an E(LA) type forum.

15 On paragraph 30, the Chief Secretary pointed out that the E(LA) decision on local authority current in July had been a collective decision and he thought that colleagues were well aware of the consequences for the overall arithmetic. It was noted that the press had failed to draw the conclusion from the announcement on local authority current that the planning total could not be held. On paragraph 31, it was agreed that there would be no advantage in the foreseeable future in reverting to the practice of having an E(A) discussion on nationalised industries external finance.

Operation of the Star Chamber

16 The Chief Secretary said he felt that the system worked better with the larger Star Chamber in 1985. At times last year there

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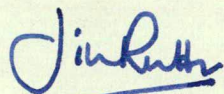
had barely been a quorum. An attempt should be made to revert to the six man group. The work of the Star Chamber had been made easier by the fact that the issues taken to it in 1986 were key political issues and the Star Chamber had not got bogged down in the sort of technicalities that had bedevilled the 1985 discussions where LA capital expenditure featured heavily. Mr Gray thought a major contribution to the success had been Lord Whitelaw's acceptance of a more active role as personal broker.

17 The Chief Secretary said he was unhappy at the recommendation in paragraph 34 on briefing. He did not wish Star Chamber members to be fully alerted to all his key points in advance of the meeting. He would discuss the briefing requirements of Star Chamber members as soon as they were appointed in this year's Survey. The Chief Secretary noted that it would be impossible to argue, as it had been possible to do in 1985, that Ministers who went to Star Chamber got a worse deal than those who settled outside. It would be necessary to look at what had been conceded in advance of Star Chamber to avoid accusation that this room for manoeuvre had been given away. It was noted that the announcement of the starting benefit rates for the new benefit structure in April 1988 would pose particular complications for the Star Chamber timetable for 1987.

Scorekeeping

18 The Chief Secretary noted that there was enormous advantage in ensuring that numbers were not changed during Star Chamber's deliberations. In 1985 changes caused by economic assumption changes during the Star Chamber process had severely undermined the discussions with Mr Fowler. The timing of the issue of economic assumptions in 1986 had been a great improvement and should be retained.

19 I am recording the Chief Secretary's manuscript comments on the Annexes in a separate minute.



JILL RUTTER

Private Secretary

SECRET

*pmf***FROM: COLIN MOWL**
DATE: 23 January 1987**CHANCELLOR**cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
PCC Members
Mr Sedgwick
Mr Turnbull
Mr Odling-Smee
Mr Moore
Mr Peretz
Mrs R J Butler
Mr Riley
Mr Ritchie
Mr Briscoe
Mr Devereux
Mr Cropper
Mr Tyrie
Mr Ross Goobey**PSBR IN 1986-87**

In the report on the January Economic Forecast circulated today by Mr Sedgwick the PSBR in 1986-87 is put at £5¼ billion, compared with £7 billion in the FSBR and Autumn Statement forecasts. The attached note discusses the forecast in more detail, concentrating in particular on the monthly profile of borrowing for the rest of the year.

*Colin Mowl***COLIN MOWL**

PSBR IN 1986-87

The Year So Far

1. Table 1 summarises the position for the nine months to December, comparing it with the profile constructed at the time of the Budget. Chart 1 makes the same comparison. At end-December the cumulative PSBR was nearly £3 billion below the Budget profile, with central government own account borrowing accounting for just over half of the undershoot, and local authorities and public corporations each accounting for about one fifth of it.

TABLE 1: PSBR APRIL-DECEMBER* - £ billion
(receipts -, outlays +)

	Budget Profile	Outturn	Difference between outturn and Budget Profile	
			£b	%**
<u>CG Receipts</u>				
Non-oil taxes	-67.3	-69.5	-2.2	-3
Oil taxes and royalties	-3.5	-2.5	+1.0	+28
NIC's	-15.9	-16.3	-0.5	-3
Privatisation proceeds	-2.9	-3.3	-0.4	-14
Other receipts	-	-0.5	-0.5	-
<u>CG Outlays</u>				
Supply and other expenditure	90.7	91.6	+0.9	+1
Debt interest (net expenditure)	6.0	6.1	+0.1	+1
CGBR(O)	7.1	5.5	-1.6	-
LABR	0.5	-0.3	-0.8	-
PCBR	-0.1	-0.7	-0.6	-
PSBR (excluding privatisation proceeds)	7.4 (10.3)	4.5 (7.7)	-2.9 (-2.6)	-

* figures may not add due to rounding

** a dash indicates that percentage changes are not meaningful

Table 2: Borrowing Requirement profiles: January forecast
(1986 Budget profiles in italics for comparison)

£ billion

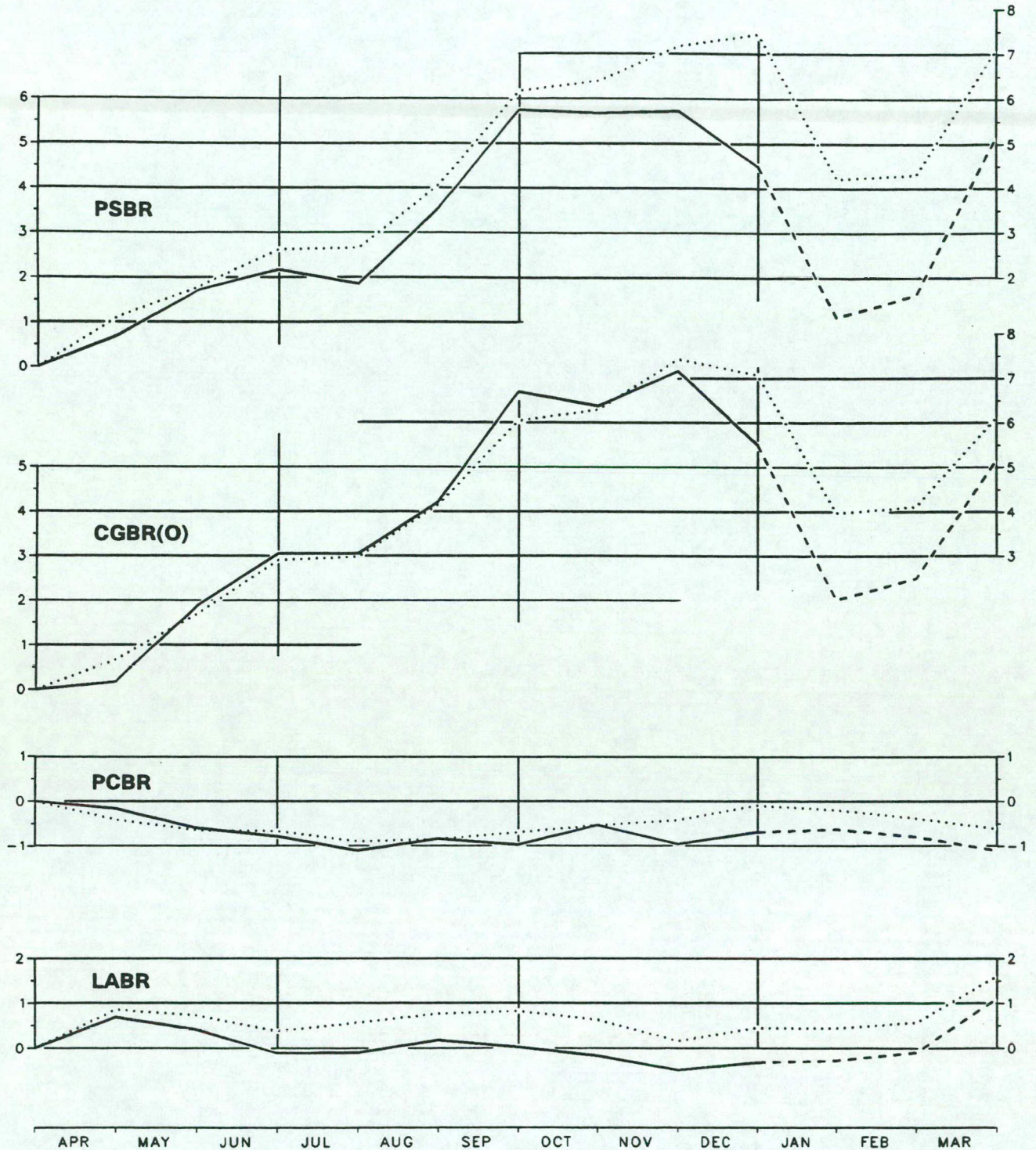
	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.0	<i>0.7</i>	1.7	<i>1.0</i>	-0.3	<i>-0.1</i>	-0.4	<i>-0.2</i>
Jun	0.5	<i>0.8</i>	1.2	<i>1.2</i>	-0.5	<i>-0.3</i>	-0.2	<i>-</i>
Jul	-0.3	<i>-</i>	-	<i>0.1</i>	-	<i>0.2</i>	-0.3	<i>-0.2</i>
Aug	1.7	<i>1.4</i>	1.2	<i>1.2</i>	0.3	<i>0.2</i>	0.3	<i>0.1</i>
Sep	2.2	<i>2.1</i>	2.5	<i>1.9</i>	-0.1	<i>0.1</i>	-0.1	<i>0.2</i>
Oct	-0.1	<i>0.2</i>	-0.3	<i>0.3</i>	-0.2	<i>-0.2</i>	0.4	<i>0.2</i>
Nov	0.1	<i>0.8</i>	0.8	<i>1.1</i>	-0.3	<i>-0.5</i>	-0.4	<i>0.1</i>
Dec	-1.2	<i>0.3</i>	-1.6	<i>-0.4</i>	0.2	<i>0.3</i>	0.3	<i>0.3</i>
Jan	-3.4	<i>-3.2</i>	-3.5	<i>-3.1</i>	-	<i>-</i>	0.1	<i>-0.1</i>
Feb	0.5	<i>0.1</i>	0.5	<i>0.1</i>	0.2	<i>0.1</i>	-0.2	<i>-0.2</i>
Mar	3.6	<i>2.8</i>	2.7	<i>2.0</i>	1.2	<i>1.0</i>	-0.3	<i>-0.2</i>
Cumulative								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.7	<i>1.8</i>	1.9	<i>1.7</i>	0.4	<i>0.7</i>	-0.6	<i>-0.6</i>
Jun	2.2	<i>2.6</i>	3.1	<i>2.9</i>	-0.1	<i>0.4</i>	-0.8	<i>-0.7</i>
Jul	1.9	<i>2.7</i>	3.1	<i>3.0</i>	-0.1	<i>0.6</i>	-1.1	<i>-0.9</i>
Aug	3.6	<i>4.1</i>	4.2	<i>4.2</i>	0.2	<i>0.8</i>	-0.8	<i>-0.8</i>
Sep	5.8	<i>6.2</i>	6.7	<i>6.0</i>	-	<i>0.8</i>	-1.0	<i>-0.7</i>
Oct	5.7	<i>6.4</i>	6.4	<i>6.3</i>	-0.2	<i>0.6</i>	-0.5	<i>-0.5</i>
Nov	5.7	<i>7.2</i>	7.2	<i>7.4</i>	-0.5	<i>0.2</i>	-1.0	<i>-0.4</i>
Dec	4.5	<i>7.4</i>	5.5	<i>7.1</i>	-0.3	<i>0.5</i>	-0.7	<i>-0.1</i>
Jan	1.1	<i>4.2</i>	2.0	<i>4.0</i>	-0.3	<i>0.4</i>	-0.6	<i>-0.2</i>
Feb	1.6	<i>4.3</i>	2.5	<i>4.1</i>	-0.1	<i>0.6</i>	-0.8	<i>-0.4</i>
Mar	5.2	<i>7.1</i>	5.2	<i>6.1</i>	1.1	<i>1.6</i>	-1.1	<i>-0.6</i>

Figures for April to December are outturns; January to March figures are consistent with January forecast

Chart 1 : Comparisons with Budget profiles for 1986-87

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = January forecasts
- = Budget profile



Forecast for 1986-87

2. Table 3 and chart 1 summarise the latest forecast for 1986-87 as a whole.

TABLE 3: PSBR IN 1986-87* - £ billion
(receipts -, outlays +)

	Budget Forecast	January Forecast	Difference between Budget and January Forecasts	
			£b	%**
<u>CG Receipts</u>				
Non-oil taxes	-95.5	-98.3	-2.8	-3
Oil taxes and royalties	-4.8	-3.7	+1.1	+23
NIC's	-21.7	-22.2	-0.4	-2
Privatisation proceeds	-4.8	-4.6	+0.2	+4
Other receipts	-	-	-	-
<u>CG Outlays</u>				
Supply and other expenditure	124.1	124.8	+0.8	+1
Debt interest (net expenditure)	8.8	9.1	+0.3	+3
CGBR(O)	6.1	5.2	-1.0	-
LABR	1.6	1.1	-0.5	-
PCBR	-0.6	-1.1	-0.5	-
PSBR (excluding privatisation proceeds)	7.1 (11.9)	5.2 (9.7)	-1.9 (-2.1)	-

* figures may not add due to rounding

** a dash indicates that percentage changes are not meaningful

3. The CGBR(O) in the year as a whole is forecast to undershoot the Budget forecast by £1 billion, compared with an undershoot of £1.6 billion at end-December. The main reasons for the reduction in the cumulative undershoot expected in the next three months are:

- (i) privatisation proceeds so far are £0.4 billion above the level assumed in the Budget profile but the annual target is assumed to be undershot

by £0.2 billion. This assumes £½ billion for BA, £¾ billion for BGC debt and £0.1 billion for Royal Ordnance, giving an annual total of £4574 million. Latest information, available after the forecast numbers were finalised, is that the total might turn out nearer £4.5 billion than £4.6 billion.

- (ii) the unusually high level of central government bank deposits (included in other receipts in the tables) at end-December is assumed to unwind.
- (iii) the repayment of APRT in March (£0.3 billion) announced in the Autumn Statement.
- (iv) expenditure of £650 million on Rover not anticipated in the Budget profile.

These factors are partially offset by others, particularly non-oil tax receipts, working in the opposite direction.

4. The projected monthly profile of the CGBR(O) is as follows:-

- in **January** a surplus of £3½ billion is forecast. This reflects the seasonal peaking of Inland Revenue receipts. January is the main month for the receipts of schedule D income tax (totalling £1 billion) and mainstream Corporation Tax (totalling nearly £4 billion); receipts of Advance Corporation Tax (totalling over £1 billion) are also high. National insurance contributions are high and national insurance benefit funding is low. These factors are partly offset by high supply expenditure (due to payments of student grants and high rate support grants), low interest receipts and some unwinding of the large rise in bank deposits in December.
- in **February** borrowing of £½ billion is forecast. Privatisation proceeds (sale of BA) are assumed to raise £½ billion. VAT receipts will be high (as they are in May, August and November).

- in **March** the CGBR(0) is forecast to be £2½ billion. Expenditure on Rover of £650 million is included. Adjusting for this, the end-year surge in supply expenditure is slightly higher than last year, though lower than in 1984-85. Privatisation proceeds (repayment of BGC debt and sale of Royal Ordnance) are assumed to raise £¾ billion. Interest receipts are high as are debt interest payments.

5. There are a number of uncertainties about the forecast. It is still a little early to know with any accuracy how much corporation tax will be received in January, although there is some indication of receipts in the first three weeks. The payment in December of £¾ billion of tax due in January complicates the assessment. If December and January are taken together in an attempt to avoid this complication, the position is that receipts (including ACT) to the third week of January amount to approximately £5½ billion. Inland Revenue advise that this is consistent with the £6 billion allowed for in the forecast. A further uncertainty arises from the end-year surge in expenditure which is difficult to judge. This year there is the added uncertainty of Rover which could either slip into 1987-88, or, more likely, be different from the amount assumed.

6. The paucity of monthly recorded information on the components of LA and PC borrowing creates considerable difficulties for the forecast of the rest of the financial year. Quarterly data on income and expenditure is available only for the first half of the financial year. In these circumstances the forecast is based partly on the latest monthly figures for borrowing and partly on the quarterly forecast of income and expenditure. The quarterly income/expenditure analysis points to lower **LA borrowing** in 1986-87 than in 1985-86, both because of a higher current surplus - the growth of rate and grant income is estimated to have picked up more sharply than that of current expenditure - and because of lower capital spending.

7. For the forecast of the LABR we have given considerable weight to the well-established pattern of high borrowing in the last quarter of the financial year. There does not seem

to be a discernible tendency in recent years for low borrowing in the first nine months to be offset in the last three or vice versa. Table 4 below sets out the previous experience and the forecast. The forecast of the LABR in the last quarter is a little higher than the average of recent years, but there is some suggestion of a rising trend.

TABLE 4: LABR - £ billions

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
First 9 months	-1.1	0.1	1.2	0.4	-0.3
Last 3 months	1.1	1.1	1.2	1.3	1.4
Annual	0.1	1.2	2.4	1.7	1.1

8. Virtually all of the local authority borrowing in the last quarter of 1986-87 will be undertaken in March, so it will be well after the Budget before there is any clue to the outturn. However the results of a DOE survey of LA borrowing intentions should be available in the first half of February.

9. Past borrowing patterns of **public corporations** as a whole are not a good guide to the current year's prospective outturn because privatisation has changed the composition of the sector and the PCBR in 1984-85 and 1985-86 was heavily distorted by the coal strike. Adjusting for the effect of privatising BT and the coal strike, as in table 5, shows that the PCBR on an underlying basis has fallen in recent years and that a further fall is forecast for 1986-87.

TABLE 5: RECORDED AND UNDERLYING PCBR, RECENT FINANCIAL YEARS (£bn)*

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u> (Forecast)
Recorded PCBR	1.5	0.4	1.2	0.0	-1.1
Privatisation adjustment	+0.4	+0.3	+0.4	-	-
Coal strike adjustment	-	-	-1.6	-0.6	-
Underlying PCBR	1.9	0.6	-0.1	-0.6	-1.1

* components may not add to total due to rounding effects

10. The estimated outturn for the first 9 months of 1986-87 supports the view that the PCBR will be substantially negative over the whole year. This is partly a reflection of an expanding economy with underlying output of nationalised industries growing at a reasonably quick pace.

11. The forecast incorporates a repayment of borrowing of £0.4 billion in the final quarter mainly due to a high forecast repayment by the electricity industry. This is mainly a seasonal effect, from high winter fuel bills benefitting the industry's cash flow, and is likely to be bigger than usual this year on account of the unusually low temperatures experienced for much of January.

PSBR: Comparison with 1985-86

12. Table 6 and chart 2 compare this year's outturn and forecast with the experience of the last two years. The cumulative outturn to December 1986 is about £3 billion below the figure for the same period in 1985-86. However the forecast implies that borrowing in 1986-87 as a whole will undershoot 1985-86 by only £0.6 billion. The main differences between the last quarter of 1985-86 and the forecast for the last quarter of 1986-87 are:-

- (i) receipts of $\frac{1}{4}$ billion of PRT (including APRT) in 1986-87 compared with receipts of $\frac{1}{2}$ billion in 1985-86.
- (ii) composite rate tax receipts from building societies of $\frac{1}{4}$ billion in 1986-87 compared with $\frac{2}{2}$ billions in 1985-86. Payments are now made in instalments rather than once a year.
- (iii) expenditure of $\frac{1}{4}$ billion on Rover this year. There were no lumpy items of expenditure of this magnitude last year.
- (iv) nearly half of the increase in gilt interest payments between the two years falls in the last

quarter of the financial year. This increases borrowing in the last quarter by about £½ billion compared with last year.

These factors are partly offset by privatisation proceeds being £¼ billion higher in the last quarter of 1986-87 than in 1985-86.

Table 6 PUBLIC SECTOR BORROWING REQUIREMENT - Comparison with the last two years

Cumulative £ billion

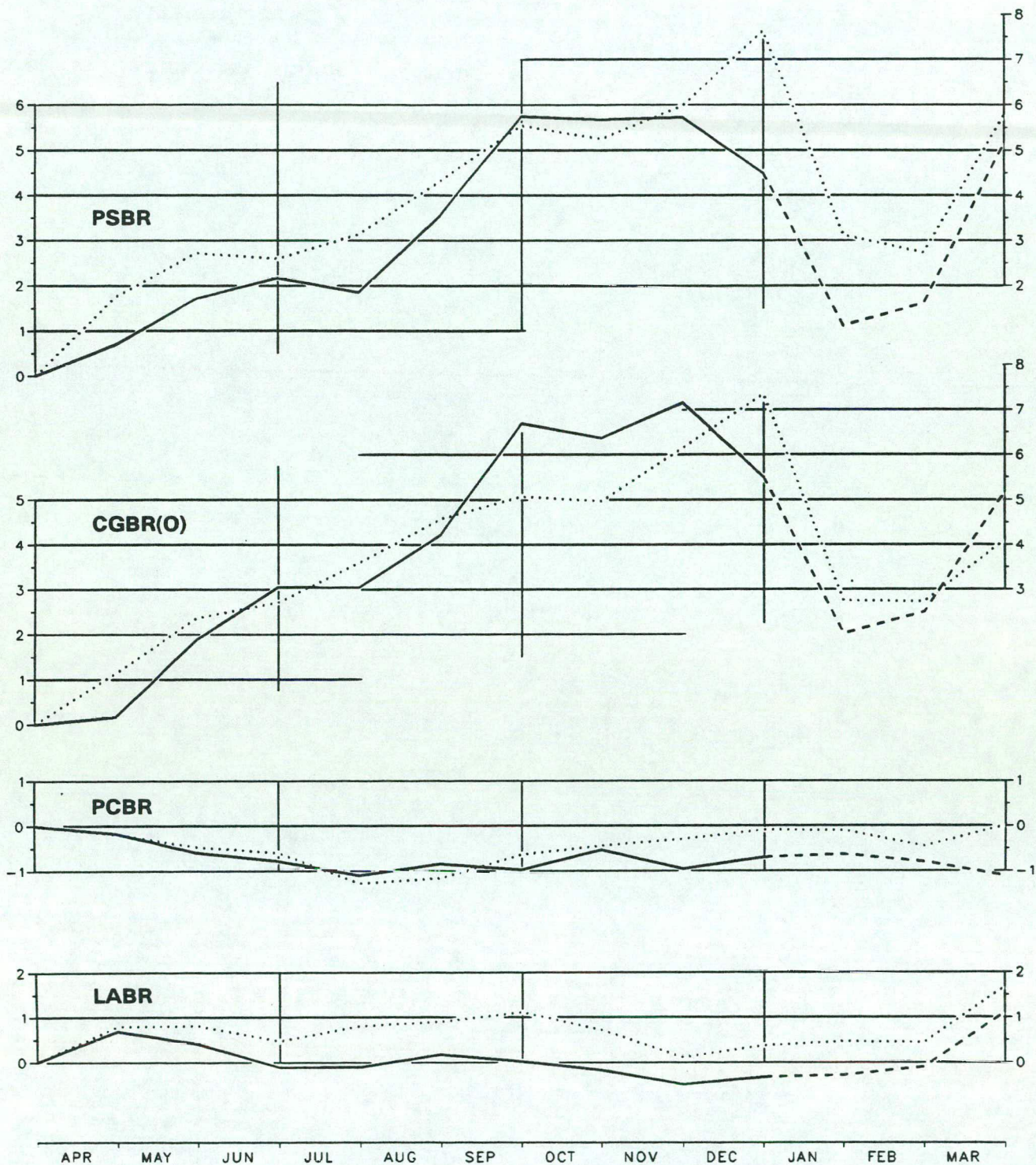
	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
Apr	1.9	1.1	0.2	0.9	0.8	0.7	-0.4	-0.2	-0.2	2.4	1.8	0.7
May	3.2	2.4	1.9	0.8	0.8	0.4	-0.4	-0.5	-0.6	3.6	2.7	1.7
Jun	4.5	2.7	3.1	0.6	0.5	-0.1	-0.5	-0.6	-0.8	4.6	2.6	2.2
Jul	5.0	3.6	3.1	0.8	0.8	-0.1	-0.7	-1.3	-1.1	5.1	3.1	1.9
Aug	6.2	4.6	4.2	1.4	0.9	0.2	-0.7	-1.2	-0.8	6.8	4.3	3.6
Sep	6.5	5.1	6.7	1.2	1.1	0.0	-0.2	-0.6	-1.0	7.5	5.6	5.8
Oct	6.7	5.0	6.4	1.0	0.7	-0.2	0.3	-0.4	-0.5	8.0	5.3	5.7
Nov	8.5	6.2	7.2	0.8	0.1	-0.5	0.4	-0.3	-1.0	9.7	6.0	5.7
Dec	7.8	7.3	5.5	1.2	0.4	-0.3	1.3	-0.1	-0.7	10.3	7.6	4.5
Jan	5.7	2.8	2.0	0.9	0.5	-0.3	1.2	-0.1	-0.6	7.8	3.1	1.1
Feb	5.1	2.7	2.5	1.3	0.4	-0.1	1.3	-0.4	-0.8	7.8	2.7	1.6
Mar	6.6	4.1	5.2	2.4	1.7	1.1	1.2	0.0	-1.1	10.2	5.8	5.2

Figures January-March 1986-87 are latest forecasts

Chart 2: Comparisons with last year's outturns

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = January forecasts
- = 1985-86 outturn



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BF 29/1
For meeting
Folder
PES Post 11

FROM: JILL RUTTER

DATE: 26 January 1987

PRINCIPAL PRIVATE SECRETARY

cc:
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
PCC Members
COGPEC Members

Thorough!
POST MORTEM ON THE 1986 PUBLIC EXPENDITURE SURVEY: ANNEX J,
APPENDICES 3 AND 4

In my minute of 21 January I recorded the discussion on Annex J appendices 1 and 2. This note completes the process, recording the discussion in the reconvened meeting on appendices 3 and 4. It should be associated with that minute and the other minutes on the Survey Post Mortem.

Appendix 3: Limiting prospective expenditure increases

(i) CAP reform: ALURE

2 The Chief Secretary said that looking realistically there was no prospect of specifically linking ALURE expenditure to CAP savings. The expenditure would be incurred and there would have to be an act of faith that the savings would materialise. The sums entailed were quite small. Mr Burgner said that work was still proceeding on providing some mechanism to ensure that grants e.g. for afforestation were only paid when land was taken out of production. The Chief Secretary said he endorsed that objective. He would want

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to have an early discussion with Mr Jopling on progress of the forestry scheme, well in advance of the Prime Minister's 12 February meeting.

(ii) British Shipbuilders

3 Mrs Brown explained that there was not much prospect of any savings, and the question was how to avert potential costs. Pre-Election the best hope was to keep the lid on. In the longer-term there would be redundancy and closure costs if the yards were rationalised. The Chief Secretary agreed that there was little to be done at this stage.

(iii) Electricity

4 The progress on Sizewell was noted. On financial targets Mr Monck said that work was delayed by the need for a Sizewell decision. The aim was to complete the work in advance of this year's IRF. There was a risk of £900 million extra expenditure on power stations over the next Survey period. The Chief Secretary noted that he would wish to have early discussions in May with Mr Walker and Mr Rifkind.

(iv): Coal Business Plan

5 Mr Monck noted that this would not be a source of savings and could possibly imply extra expenditure.

(v) Specific grants to local authorities

6 Lack of progress following today's E(LF) discussion was noted. This in any case was never a source of potential expenditure savings rather for constraining the erosion of block grant.

(vi): Family practitioner service

7 Identification of savings noted.

(vii) Social Security Review Recosting

8 Miss Peirson explained that the DHSS would be aiming to complete the recosting of new benefit structure this Spring. Matters would come for decision in April. If extra costs emerged in some areas it would be essential to make other changes to offset these.

(viii): DHSS complementing

9 Miss Peirson noted that DHSS had lodged a large bid of a similar order to their increased complement last year. The build up would occur between 1 April 1987 and 1 April 1988. Savings from the social security review were already incorporated in the baseline.

(ix) Funding of Census

10 This had already been discussed.

Conclusion

11 The Chief Secretary said he would find it very useful to have a calendar prepared by GEP setting out the dates at which crucial decisions would come forward. Mr Gieve undertook to prepare this.

(x) Appendix 4: Improvements in planning and/or control of existing spending

(i) Regional Selective Assistance

12 Mr Burgner said progress was slow. The Treasury was aiming to have a paper agreed in March, with a view to implementation in April. Departments were resisting work on rigorous appraisal. The Treasury was pushing for consultants' advice on individual case studies.

(ii) Review of methods for assessing cost effectiveness of FREF

13 Mr Davis noted that there was very little in this and progress

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would not be easy. ECGD, DTI and exporters would all be opposed to any marginal savings. Mr Monck thought there was little merit in making the scheme selective; it would be better to tackle the scheme head on, but there was not much hope of doing that pre-Election. The Chief Secretary said he would not look to this area to generate any major savings.

(iii) Water Authorities: Financial Targets and Investment

14 The Chief Secretary said he attached great importance to this work. 1987 would be the key IFR for the Water Authorities. Mr Monck pointed out that unless something were done to tackle some of the low returns in some of the Water Authorities they would require very elaborate price regulation involving RPI plus rather than RPI minus formulae in price regulation regimes. What was needed was for selective but large price increases in the coming IFR to avoid the need for such unattractive regimes. The Chief Secretary said that this must be tackled this year; he would welcome a progress report at the end of March.

(iv) Magistrates Courts

15 Mr Gilmore noted that this was not an exercise to generate savings but to increase efficiency and reduce pressure on the Magistrates Courts.

(v) Police specific grant

16 Noted.

(vi) Criminal injuries compensation scheme

17 The Chief Secretary said he would not place much reliance on this to generate any worthwhile savings.

(vii) Review of Government R & D

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18 Mr Gilmore said that he thought that genuine progress was being made in securing better value for money in DES science spending. Mr Burgner reported that he thought that there was likely to be a bid from DTI on this. Ms Seammen reported that one consequence of the Nimrod decision was that MOD were now on target to meet the cuts specified in defence R & D over the course of the Survey. It was noted that the major sources for saving identified in ERD were agriculture and energy where colleagues were agreed that these were lower priority areas but there was no obvious mechanism for removing money from them. Mr Younger would be discussing defence R&D with the Chief Secretary next week. Ms Seammen pointed out that MOD was still way over target for the 1990s and the objectives there could not be achieved solely by looking at national projects. They could entail withdrawal from collaborative projects in Europe.

(viii) School closure procedures

19 The Chief Secretary said that he would strongly support a move toward the Scottish system of local responsibility. The delays caused by the present procedures added to local authority expenditure. He would raise the matter with Mr Baker.

(ix) Local Environmental Services: capital expenditure by local authorities

20 It was noted that the aim of this was not to generate savings but improve value for money.

(x) Residential care and (xi) Griffiths' Review of Community Care Policy

21 The Chief Secretary said that he hoped these areas might generate savings. Miss Peirson said that there was no doubt there was a muddle to be sorted out. There was a risk that, given the widespread view that Community Care ^{was} under-resourced, the review could lead to pressure for more expenditure. The Chief Secretary asked whether it was within Mr Griffiths terms to reference to propose a switch

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back away from Community Care. (Ms Boys has since told me that these are not within his terms of reference.) Mr Anson suggested that there ought to be some offset in NHS programmes from the growing trend to Community Care. Miss Peirson pointed out that Community Care focussed mainly on the mentally and physically handicapped who were relatively cheap to deal with within the NHS. The major demographic factor boosting NHS expenditure was the rise in the numbers of the elderly. The Chief Secretary pointed out that the failure to add in expenditure on Community Care meant that expenditure on the Health Service, broadly defined, was being understated.

(xii): PSA Commercial Accounts

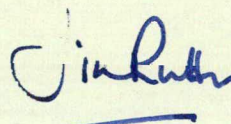
22 Mr Hawtin noted that the consultants' report was due next month and was likely to recommend moving the PSA to trading fund status.

(xiii): Future of the Crown Suppliers

23 It was agreed the potential savings would come from untying.

Conclusion

24 The Chief Secretary noted that these were useful check lists and it would be important to keep stock of progress. But there seemed little major source of savings in prospect. This trawl suggested employment and housing as the major areas to look for savings. It would be important to avoid new pledges or constrain room for manoeuvre in the future.



JILL RUTTER
Private Secretary

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DRAFT MINUTE FROM THE CHIEF SECRETARY TO THE PRIME MINISTER

I am writing to you separately on the results of our post mortem on the 1986 Public Expenditure Survey and the changes in procedure we propose for 1987. I think I should also let you know of my concern about the pressures I foresee building up on the new planning totals just published in the Public Expenditure White Paper.

2. The new planning totals contain lower Reserves for 1987-88 and the two subsequent years than the corresponding figures in the White Paper published a year ago. We felt that this was justified because we have made more realistic provision for local authority and social security expenditure, which have caused most of our difficulties this year.

3. Nevertheless the ~~lower Reserves have attracted some criticism, and they~~ are small in relation to local authority and social security expenditure, which we cannot closely control. With the continuing pressures on public service pay and in the light of settlements already reached in the current round, it is widely predicted that local authority expenditure in particular will be substantially in excess of even the higher sums we have provided for. The position should become clear when local authorities publish their budgets for 1987-88 in April and May.

4. So outside commentators are looking for signs that even the increases in the public expenditure plans we have announced will not be sufficient; and of course they are also looking for evidence that in a pre-Election atmosphere restraint on expenditure will be relaxed. They will be eager to point up such evidence, since control of public expenditure is one of the main areas in which the public has much greater confidence in us than in our political opponents.

~~John G. ...~~

John G. ...

The page

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5. Against that background I am concerned at the number of additional bids which I am beginning to see coming forward and which I know are being prepared. I attach a table of the principal issues which have arisen already or appear imminent; it does not include bids which are very likely to come forward later in the year for example following the reports of the pay review bodies or resulting from the difficulties over the EC budget. Of course, I hope that some will not go through at all and others will be substantially scaled down. Even so, it is the accumulation of increases which can be damaging rather than their individual size. And the accumulation can be as damaging internally with colleagues, by giving them the impression that restraint has been relaxed and so encouraging them to press even more proposals, as it is with the outside world.

6. I very much welcomed, therefore, the comments in your Private Secretary's recent letter on student grants. Signals of this sort to colleagues are enormously helpful. It would be valuable if, in replying to my proposals for the next Survey, you could repeat this message either in a written response or perhaps by saying something in Cabinet. I attach a draft of the sort of thing I have in mind. You and the Lord President may like to have a word about the prospect with the Chancellor and myself.

7. I am copying this minute to the Lord President and the Chancellor of the Exchequer.

PUBLIC EXPENDITURE

- BIDS FOR ADDITIONS TO WHITE PAPER TOTALS

£m

	1987-88	1988-89	1989-90
<u>Agreed since Survey</u>			
AIDS	1	1	1
LA current	40	-	-
Severe weather payments (change in scheme)	5	5	5
RDGs: <i>reduction of moratorium</i>	12	12	10
<u>Known about during Survey but subsequently agreed for announcement</u>			
British Library	4	6	9
Academic Pay	40	56	71
<u>Other existing and potential bids (approximate numbers)</u>			
Teachers pay (spillover of payment due in 1986-87)	120	-	-
Radon	1	3	3
NHS (1) - Breast screening, Hepatitis B vaccine, measures for diabetics	11	14	9
Effect of EMS realignment on agricultural support	19	9	9
<u>Consequent green £</u> devaluation <i>on what basis?</i>	110	100	100
ALURE	20	25	30
Coal (redundancy pay)	60	5	5
Extra staff for social security	45	45	45
Space	75	125	170
Launch aid	50	100	150
Helicopter orders	-	50	50
Frigate orders	10	25	25
British Antarctic Survey	2	2	2
National Heritage Memorial Fund	-	9	9
MRC research on AIDS	up to 10	up to 10	up to 10
<i>add</i> Sizewell and other power stations	110	100	200

Total of above
(1) Mr Fowler is offering offsets in the non-cash limited FPS.

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We decided in the last Public Expenditure Survey to make substantial increases in our public expenditure plans. We must now keep within the revised plans and be seen to be determined to do so. In some areas, like the current expenditure of local authorities, we have only limited control, but this makes it all the more important to avoid discretionary increases and to achieve economies within existing programmes. In spite of the political pressures this year, we must avoid statements committing us to expensive additions, or limiting our freedom to meet increases by savings elsewhere.

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FROM: F. E. R. BUTLER
28th January, 1987.

PRINCIPAL PRIVATE SECRETARY

✓
H

c.c. PS/Chief Secretary
Sir Peter Middleton
Mr. Anson
Mr. Monck
Mr. Turnbull
Mr. Gieve

Mr. Tyrrie

CHANCELLOR'S MEETING ON THE SURVEY AND RUNNING COSTS

I suggest the attached agenda for the Chancellor's meeting with us on Friday.

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F.E.R.B

F. E. R. BUTLER

Ch
PEM's comment below

AA

POST MORTEM ON SURVEY AND RUNNING COSTS

1. General Survey Tactics

Is it agreed that last year's tactics cannot be repeated? How is this conclusion affected by

- (a) Possible Election dates?
- (b) The prospect in the latest economic forecast?

2. Procedures and mechanics

Is it agreed that we should

- (a) Get on now with settling the Survey Guidelines, leaving until after the Budget the decision how to set the baseline for the new final year?
- (b) Abandon the Survey Report and discuss value for money, performance/output indicators and contingent liabilities bilaterally with departments?
- (c) As last year, require Ministers making bids to do so by letter together with supporting information on what bids are expected to achieve?
- (d) Reserve (and make greater use of) our right to ask departments to produce or cost options for reductions on an individual basis?
- (e) Repeat procedure for settling local authority and nationalised industry provision?
- (f) Plan for Star Chamber, but with one extra member?
- (g) Any other points on procedure and mechanics?

3. Running costs and manpower

Is it agreed that we should

- (a) Follow same procedure for running cost bids as for public expenditure bids generally, possibly asking the Cabinet to set an overall limit for running costs in July and then negotiating with Departments within this limit?
- (b) Announce (perhaps in debate on PEWP) that new manpower targets will not be set after 1st April 1988 but that manpower plans consistent with running cost provision will continue to be agreed with the Treasury in Survey discussions and will be published?

4. Policy reviews

Any further reviews to replenish the Treasury's ammunition on top of those in Miss Rutter's minutes of 21st and 26th January?

5. Next Steps

Is it agreed that

- Chief Secretary now minutes Prime Minister on main proposals for the 1987 Survey and running costs exercise (and separately on his concern about pre Survey bids)
- After receiving Prime Minister's agreement, Chief Secretary minutes Cabinet
- In replying to Chief Secretary's minute, Prime Minister stresses importance of restraining new bids
- 1987 Survey guidelines circulated either shortly before or shortly after Budget (if the former, treatment of third year to be handled separately).

FROM: JOHN GIEVE
DATE: 29 January 1987

1. MR F E R BUTLER
2. CHIEF SECRETARY

cc Chancellor ✓
Sir P Middleton
Sir T Burns
Mr Monck
Mr Anson
Mr Cassell
Mr Sedgwick
Mr Turnbull
Mr Pratt
Mrs R J Butler
Mr Mowl
Mr Odling-Smee

Ch
Jump to flagged
table to see summary
AA

Forecasters may
have overdone
or slipped:
part 11 746
but it was
checked Nov 75h.

PUBLIC EXPENDITURE IN 1988-89

As you know, the January Economic Forecast shows public expenditure in 1988-89 some £5 billion over the planning total in the White Paper. I attach a page from Mr Mowl's minute of 26 January which summarises the overspends. The forecasters consult a number of expenditure divisions on the assumptions they use but the forecast is not built up from projections department by department but from trends in expenditure in broad economic categories. This minute attempts to assess the implications for some departmental programmes and, in that light, comments on the scope for holding the level of increase below the forecast.

General points

2. The forecast looks through the next Survey to the outturn in 1988-89. Much of the overspend reflects the increased forecast of inflation with rises in the GDP deflator of 4.4 per cent in 1987-88 and 5.1 per cent in 1988-89 compared with the assumptions underlying the planning totals of 3.75 per cent in 1987-88 and 3.5 per cent in 1988-89. However, expenditure in 1988-89 is also forecast to be 0.9 per cent (approximately £1.4 billion) higher in real terms than was planned in the White Paper. The White Paper showed a 2 per cent increase in real terms in 1987-88 followed by a negligible real increase in 1988-89; the forecast is that higher inflation will reduce the real increase in 1987-88 to 1.6 per cent but there will be a rebound in 1988-89 with a further 1.7 per cent real growth.

3. This note takes the forecasts of inflation as given and examines the extent to which the pressures for increased expenditure can be resisted through the mechanisms of cash planning. In some programmes, for example social security and ECGD, the actual level of inflation and interest rates will largely determine expenditure. But in the cash limited sphere the assumptions that are made during the 1987 Survey about inflation in 1988-89 may be almost as important since it may prove possible to hold to cash limits even if inflation proves higher than anticipated. When discussing the departmental programmes with divisions, I have assumed that ^{the/}MTFS will show inflation of 4½ per cent in 1987-88 falling ^{the same} to 4 per cent in 1988-89 and that ^{the/}figures will be used as the economic assumptions for the Survey.

SOCIAL SECURITY

The forecast overspend of £1.6 billion in 1988-89 results from a reduction to plans to reflect the unemployment forecast, allowance for a higher uprating in April 1988, and the forecasters' view that the growth in take-up (which is reflected both in numbers of recipients and the average level of payment) will continue at a faster rate than was allowed for in the White Paper. Following an estimated 3-3½ per cent growth in the last factor in 1984-85 and 1985-86, the forecast outturn for 1986-87 suggests an even higher rate of growth, estimated very roughly at over 4 per cent. The forecasters are assuming that growth will remain much the same (4 per cent) in 1987-88 but fall to 2.5 per cent in 1988-89. This is slightly above ST division's best guess for 1987-88 but it is very difficult to assess the likely impact on take-up of the recent measures for example on board and lodging. ST would support the assumed reduction in growth in 1988-89, given the change to the new benefit structure, but again the effect of that change is very difficult to forecast. In the light of the uncertainties, ST would not think it prudent to plan on the overspend in 1988-89 being substantially lower than set out in the forecast.

LOCAL AUTHORITY CAPITAL

The forecast is for an overspend of £700m in 1988-89 for both gross and net spending. LG consider that some increase over plan is likely since the White Paper shows a fall of £250m in cash terms for both gross and net between 1987-88 and 1988-89. However, they consider

How?
that it should be possible to avoid a substantial overspend in 1987-88 and then to keep spending in 1988-89 within the range between constant in cash terms and constant in real terms. This produces an increase on plans in 1988-89 of between £300m and £500m. The latest information on receipts in the current year shows that these are running at a higher level than anticipated. If that continues that will help to ease the pressure for increases in provision.

LOCAL AUTHORITY RELEVANT

The forecast is for an overspend of £2.8 billion in 1988-89. This reflects the assumptions that manpower in local authorities will grow at 1¼ per cent a year, that pay will increase by around 8 per cent a year (in line with pay in the private sector plus an allowance for teachers), and that other spending will increase by some 1 per cent a year in real terms. In total that produces an increase of 9 per cent in relevant expenditure in 1988-89 following a 10 per cent increase in 1987-88 and 7 per cent in 1986-87.

LG accept that a substantial overspend on existing plans is likely. They do not disagree with the estimate of an overspend of £1.2 billion in 1987-88. There are some reasons for thinking the overspend in 1988-89 could be lower than £2.8 billion. First expenditure will depend to some extent on the toughness of the RSG settlement this summer. On the basis that AEG will be increased to remain a constant proportion of relevant expenditure, rates would have to rise by 11 per cent in 1988-89 to finance the forecast expenditure. This would involve increasing AEG by £1.5 billion between 1987-88 and 1988-89. If AEG is increased instead by 4 per cent, approximately £600m, then the same level of expenditure would require a further £900m in rate income (equivalent to approximately 5 per cent more on the rates - ie 16 per cent overall) assuming no change in balances. 1988-89 may also be the year in which the position on rate-capped authorities comes to a head with either an increase in the ceilings or a sharp drop in spending by the authorities.

On the other hand, the lesson from past years is that constraints on grant produce a muted impact on spending and no major improvements in the government's controls on local government are planned for 1988-89.

LG hope to achieve a tough RSG settlement this summer but note that the timing of the election could have a major influence. On balance they think it would be unwise to plan on an overspend of less than £2.5 - £3.0 billion.

EC
contributions

NET EC CONTRIBUTIONS

The forecast shows an increase of £100m over the White Paper plan of £400m in 1988-89. This reflects a reworking of the projections, but still on the fairly optimistic assumptions that there is no increase in the 1.4 per cent VAT ceiling and that we receive in 1988 both the full abatement in respect of 1987 and the full correction to our abatement in respect of 1986. The risks are one way.

CENTRAL GOVERNMENT

The forecast is that expenditure on pay will exceed plan by £1.7 billion, expenditure on procurement by £1 billion and other central government by £1.9 billion. The MOD and NHS account for such large proportions of pay and procurement spending that we have looked at those separately.

DEFENCE

This accounts for 29 per cent of the provision for pay in 1988-89 and 45 per cent of the provision for procurement. The White Paper shows a fall of 2.75 per cent in real terms in the defence budget in 1987-88 followed by a further 2.25 per cent in 1988-89. Using the revised forecasts on inflation, they imply a fiercer volume squeeze of 3.25 per cent in 1987-88 and 3.75 per cent in 1988-89. DM expect to be able to hold the 1987-88 cash limit in the face of the forecast higher inflation. They would hope to be able to hold to the 1988-89 figures. They think the strongest pressure will be to increase the 1988-89 provision to reflect the pay award for armed services in 1987. At worst they would expect an increase in provision of £100m on that account. They should then be able to hold the cash limit in 1988-89. On a proportionate basis the forecast allows for an increase of £950m on defence.

HEALTH SERVICE

The health service accounts for a third of the central government pay provision in 1988-89 and 30 per cent of procurement. About three quarters of health expenditure is subject to cash limits, the main exception being the Family Practitioner Services. The White Paper plans showed a 3.0 per cent increase in current expenditure in real terms in 1987-88 followed by 0.8 per cent increase in 1988-89. Given the commitment of Ministers to increasing expenditure on the health service in real terms, ST would expect during the 1987 Survey to have to increase provision for 1988-89 to reflect actual and assumed future inflation. In broad terms that would involve an increase of £250m. In addition, there are likely to be great pressures for further real increases above the 0.8 per cent assumed in the White Paper. There will also be pressures for increases during 1988-89 if inflation exceeds the assumed level especially to meet pay awards. Part of these increases in the FPS may be unavoidable but part may be postponed by phasing etc. In total, ST would be disappointed if the increase for the health service in 1988-89, including calls on the Reserve in-year, was more than £600m. On a proportionate basis the forecast implies an increase in health service spending above plan of £850m.

OTHER CENTRAL GOVERNMENT PAY AND PROCUREMENT

On a proportionate basis, the forecast is for overspends of £630m on pay and £260m on procurement. Provision is spread widely over departments some of whom would have more difficulty in absorbing the forecast pay and price increases within their cash provision than others. One potential route for doing so would be to decrease manpower numbers faster than planned (although the recent pressures especially on DHSS and Employment have gone the other way). In total, departments would not be able to absorb pay increases of much more than 5 per cent in 1987-88 within their running cost limits so a pay increase of 7 per cent which was not phased would lead to a number of in-year changes to cash limits approaching £100m (excluding MOD). Of course, any general increase of that sort would make it much harder to hold the defence and health budgets down.

Looking to 1988-89, it is probably not reasonable to expect departments to absorb much of a further 7 per cent pay award. Again

assuming no phasing etc, one might face an increase of, say, £150m on top of the £100m conceded in 1987-88 (again excluding MOD). If increases of that order were conceded it might be possible to avoid any additions for procurement.

This and its implications for the level of the defence and health budgets, is one of the more difficult elements of forecast to assess. What the rough calculations above bring out is the key importance of the pay settlement. 5-6 per cent might well be capable of absorption without a general round of cash limit increases.

CENTRAL GOVERNMENT - OTHER

Neither defence nor the health service contribute substantially to this other category which consists mainly of capital expenditure, grants and subsidies. The largest departmental contributions to the total of £17 billion are MAFF, DTI & ECGD, Employment, DES, and the ODA. The forecast shows overspending in this area of £1.9 billion but part of this is in respect of genuine unforeseen contingencies.

Looking, first, at the main departmental programmes:

- (i) with falling unemployment it should be possible to avoid any increases in spending on employment measures (which accounts for 18 per cent of the total in this category); but the measures just announced will add some £120m to the expenditure on this programme (the offsets on social security are taken into account under that heading);
- (ii) Some increase in grants for higher education is probable but a little volume squeeze may be practicable (this accounts for 15 per cent of the total).
- (iii) There would be pressure to maintain the ODA's programme in real terms (9 per cent of the total), but some squeeze would probably be practicable;
- (iv) The forecast on interest rates would, if achieved, produce an increase of £170m in 1988-89 in the cost of ECGD's programme;

- (v) Agricultural spending (which accounts for 11 per cent of the total) could rise significantly either as a result of harvests and market conditions or if CAP reform is slower than assumed in the PEWP.

Allowing for some increases in (ii) and (iii) and elsewhere to reflect higher inflation, the net increase might be of the order of £400m - £500m.

The other element in the forecast is a provision for new decisions or contingencies. These could include launch aid, space, and other industrial measures. Excluding the effects of the miners' strike and end-year flexibility, the total of discretionary claims on the Reserves during the year were £700m in 1984-85, £500m in 1985-86, and £1.5 billion in 1986-87 including £600-700m for Rover. It is impossible to foresee exactly how this will work out in the coming years but, in the absence of another Rover, a coal strike or further employment measures, we might hope to restrict discretionary increases to around £650m in each year. That would give an increase of around £1.3 billion in 1988-89 on that account.

NATIONALISED INDUSTRIES

The forecast is for a £600m overspend on EFLs. This figure is based on the overall forecast of demand in the economy from which a figure for total nationalised industry output is derived. On prices it assumes no real increase for electricity in 1988-89 (whereas the White Paper assumed a 2 per cent real increase) and on costs the forecasters allow for lower productivity increases. On capital spending, the forecast is broadly in line with the White Paper.

PE take a somewhat more optimistic view on prices and costs. Allowing for an increase in capital spending for power stations, their view is that at worst the increase over White Paper plans should be in the range of £250m to £400m.

SUMMARY

Bringing the threads together gives the following figures:

Overspends in 1988-89

£billion

	<u>Forecast</u>	<u>Expenditure Groups assessment</u>
Social Security	1.6	1.6
EC	0.1	0.1
LA capital	0.7	0.3 - 0.5
LA current	2.8	2.5 - 3.0
Nat Inds	0.6	0.25 - 0.4
MOD	0.95	0.1
NHS	0.85	0.6
Other CG pay & procurement	0.9	0.25
Other CG	<u>1.9</u>	<u>1.7 - 1.8</u>
	<u>10.4</u>	<u>7.4 - 8.35</u>
Reserves	5.5	5.5
Implied Overspend	<u>4.9</u>	<u>1.9 - 2.85</u>
Real term increase		
1987-88 to 1988-89	1.7	-
1986-87 to 1988-89	3.4	1.4

It may be dangerous to add up the Groups' assessments in this way. Even if they are right about the outcome of foreseen major decisions, it is very possible to overlook the possibility of a groundswell of pressure spread over a wide range of budgets. It is for that reason among others that the forecast is based on an analysis of trends. The Expenditure Groups estimates also are very broad brush and preliminary and could well be revised after further work. The comparison shows that the Groups take a more sanguine view than the forecasters especially on central government pay and procurement. Even so, the lower end of their guesses is £1.9 billion higher than the present Reserve. There are risks too that in a number of areas, for example the EC, the outcome could be considerably worse than either forecast allows. If it proved necessary also for a large number of cash limits to be increased to reflect the civil service pay awards, the prospects for holding the increase in Ministry of Defence as low as DM hope would be made much worse. On the other side, if inflation or the level of pay settlements were to be significantly below the forecast levels the pressure would be greatly eased.

J.S. Gier

VI PUBLIC EXPENDITURE

The Planning Total and GGE

29. Table 13 below summarises the forecasters' view of the planning total:

TABLE 13: PLANNING TOTAL - £ billion

		<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
1987 PEWP	Cash	140.4	148.6	154.2
	1985-86 prices	136.5	139.3	139.6
January forecast	Cash	140.3	148.8	159.1
	1985-86 prices	136.2	138.4	140.8

30. The implied claims on the Reserve are as follows:

TABLE 14: FORECAST CLAIMS ON THE RESERVE* - £ billion

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Social Security	1.5	0.5	1.6
Central government pay	-	0.7	1.7
Other central government current expenditure	0.1	-	1.0
Net EC contributions	0.4	0.2	0.1
Other central government	0.2	1.0	1.9
Local authority relevant	2.3	1.2	2.8
Local authority capital	0.2	0.2	0.7
Nationalised industry EFLs	-	0.1	0.6
Other	0.2	-0.2	-0.1
Privatisation proceeds	0.8 ⁺	-	-
PEWP Reserves	-4.5	-3.5	-5.5
Overspend on PEWP planning totals	1.2	0.2	4.9

* 1986 PEWP for 1986-87, 1987 PEWP otherwise

⁺ comprising £0.2 billion shortfall on gross privatisation receipts and £0.6 billion expenditure on acquisition of Rover shares.

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FROM: JILL RUTTER

DATE: 29 January 1987

PRINCIPLE PRIVATE SECRETARY

cc
 Chancellor
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir Peter Middleton
 COGPEC
 Mr F K Jones
 Mr Shore
 Mr Cropper
 Mr Tyrie
 Mr Ross-Goobey

**POST MORTEM ON THE 1986 PUBLIC EXPENDITURE SURVEY:
 CONTINGENT LIABILITIES**

The Chief Secretary held a meeting with Mr Anson and others to discuss Mr Anson's minute of 19 December covering the review on contingent liabilities.

2 The Chief Secretary said he fully endorsed the points in Mr Anson's covering minute.

3 The Chief Secretary did however think that the minute he would be sending the Prime Minister about the Survey procedure should bring out the results of this review. The figures underlined the importance which should be attached to this exercise.

4 On the main report the Chief Secretary said he agreed with the conclusions in paragraph 18 - 22. He believed that the review should be repeated in the Survey each year and if necessary it should be taken up if only in parenthesis. He thought it was right to make colleagues aware of the scale of the potential risks although the itemised list should not be revealed to them. He felt that this strengthened his hand considerably in his ~~in his~~ general public expenditure negotiations.

JILL RUTTER

Private Secretary

From: SIR PETER MIDDLETON

Date: 29 January 1987

CHANCELLOR

cc

Chief Secretary
Mr F E R ButlerSURVEY AND RUNNING COSTS

I am afraid that because of the reorganisation of Friday's diary I shall be unable to attend your meeting. I have two comments.

2. On public expenditure, I support the line taken in Mr Turnbull's minute of 23 December and at the Chief Secretary's meeting. We must have one supreme objective in mind. That is to stick to, and so far as we can, reinforce the system of cash planning. With this goes the setting of budgets in cash terms and setting performance indicators to maximise the value we get from the cash. If we lose this priority it is easy to see how the whole of the present trend to devolved management could work against us. We should end up providing the manpower, pay and expenditure to meet output objectives rather than getting value from a cash total which is the prime focus of policy. There is no disagreement about this. But the risks are obvious and we must guard against them.


3. On running costs and pay, I am rather apprehensive. We are moving towards a more devolved "flexible" pay system, we are losing manpower targets, and we are moving towards a running cost regime which tactically looks right but which appears to lack substance and commitment. I support the moves towards devolution and away from manpower targets. But there is an obvious risk that in taking off the sort of lid we had last year to accommodate the various pressures, we shall let loose more pressures which cannot be contained. There seem to me to be two fundamentals which we must preserve.

CL
Peter can't come because
he stole his slot with Brian
Griffiths for continuation
A present meeting with
Terry, & he has had to shift
Brian to his slot

AA

4. First we must continue to be able to estimate and influence the pay bill however devolved the pay system becomes. Without this we shall put weight on the running cost regime that it can possibly bear. This is more a matter of how we deal with Mr Kemp's proposed new pay structure than running costs, but as the two developments will be broadly concurrent on present plans, we must ensure that they support each other.

5. Second, on the assumption that pay pressures are contained to the best of our ability, is the running cost regime itself. I favour the new arrangements so far as the steps in the process are concerned. But they do not seem to be enough. The Treasury ought to have a clear set of principles on overall running costs to which it will refer in the game of cat and mouse with departments. What seems to me to be missing at present is any idea of the trend productivity increase we should expect over time from the public services. I would feel much happier if we were to say that running costs in total would not be allowed to increase by more than pay less $\frac{1}{2}\%$ or 1%. This is a simpler, more practical objective than esoteric concepts like the GDP deflator. Some such addition would add substance to our tactics.



PP P E MIDDLETON

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Meena
PsethampFROM: I D EVANS
DATE: 3 February 19871. MR MOWLE *E.T.M.*

2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Peretz
Mr Scholar
Mr Watts
Mr Ritchie
Mr Devereux**CGBR(O) & CGBR IN JANUARY**

1. The provisional outturn for the CGBR(O) in January is a surplus of £3.6 billion, £0.1 billion higher than the surplus of £3.5 billion forecast last month. It appears that lower than forecast expenditure has more than offset a slight shortfall on Inland Revenue and Customs and Excise receipts. Little information on the composition of revenues is available at this stage but very provisional data on corporation tax receipts last month seem to be consistent with the January Economic Forecast (Mr Sedgwick's minute of 23 January). Corporation tax receipts in December and January together appear to have been around £6 billion.

2. The provisional outturn for the CGBR(O) assumes a reduction of £0.4 billion in central government bank deposits, largely unwinding the large increase in December. Accurate information on this will be available from the Bank of England later in the month. The estimate of the outturn is subject to revision before publication on Tuesday 17 February.

3. In the first 10 months of 1986-87 the CGBR(O) was £4.0 billion, £2.1 billion below the Budget profile. The main factors are:

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CGBR(O) APRIL-JANUARY* - £ billion

(receipts -, outlays +)

	Budget Profile	Outturn	Difference between outturn and Budget Profile	
			£b	%**
<u>CG Receipts</u>				
Non-oil taxes	-80.3	-82.4	-2.2	-3
Oil taxes and royalties	-4.4	-3.4	+1.0	+22
NIC's	-18.0	-18.4	-0.4	-2
Privatisation proceeds	-2.9	-3.3	-0.4	-13
Other receipts	0	-0.1	-0.1	-
<u>CG Outlays</u>				
Supply and other expenditure	101.9	101.6	-0.2	0
Debt interest (net expenditure)	7.7	7.9	+0.3	+3
CGBR(O)	4.0	1.9	-2.1	-

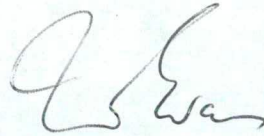
* figures may not add due to rounding

** a dash indicates that percentage changes are not meaningful

- among non-oil taxes VAT and corporation tax more than account for the excess over Budget profile
- about £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 to 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high
- the cumulative shortfall on supply and other expenditure is the result of a low January figure. At end December this was £¼ billion above profile. No information is yet available as to what happened in January to produce this turnround.
- the timing of privatisation proceeds in the Budget profile is fairly arbitrary, and the outturn does not imply any departure from the latest forecast for the year as a whole.

4. On-lending to local authorities and public corporations in January totalled £0.2 billion. The CGBR in January was therefore a surplus of £3.4 billion, bringing the total since 1 April 1986 to borrowing of £5.8 billion.

5. Further analysis of the outturn in January will be given in the next Ministerial note on the PSBR in two weeks' time.

A handwritten signature in dark ink, appearing to read 'I D Evans', written in a cursive style.

I D EVANS

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CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	January 1987			April 1986-January 1987			April 1985 - January 1986
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 10.3	+ 10.5	- 0.1	+ 48.7	+ 48.2	+ 0.6	+ 46.5
Customs and Excise	+ 3.2	+ 3.3	- 0.1	+ 34.0	+ 33.4	+ 0.6	+ 31.0
Other own account	- 9.9	- 10.3	+ 0.4	- 84.7	- 85.6	+ 0.9	- 80.2
CGBR (O)	+ 3.6	+ 3.5	+ 0.1	- 1.9	- 4.0	+ 2.1	- 2.8
On- lending:							
- LAs	- 0.2	- 0.1	- 0.1	- 3.8	- 4.7	+ 0.9	- 3.7
- PCs	+ 0.1	-	-	- 0.1	+ 0.1	- 0.2	- 1.2
CGBR	+ 3.4	+ 3.4	-	- 5.8	- 8.5	+ 2.7	- 7.7

+ indicates a net receipt, or difference which reduces the CGBR.

- indicates a net payment, or difference which increases the CGBR.

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FROM: F CASSELL
4 February 1987

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Mowl
Mr Pickford
Mr Ross Goobey

RELEASING THE MONTHLY PSBR NUMBER

The monthly PSBR press notice, introduced in 1983, deliberately eschews comment. It just gives the figures. There are in fact a lot of figures in it, reflecting its historical derivation from the publication of Exchequer accounts in the London Gazette. But there is one figure that the market seizes on, and the brokers (etc) go to great lengths to make sure that they get it immediately on the dot of 11.30 on the day of release. They also seek to get in first with telephone calls to IDT to get the Treasury's gloss on the numbers. Since the number of gilts market-makers far exceeds the number of lines to IDT it is inevitable that this gloss will be available to some earlier than others.

2. This last point was picked up by Lex, in a piece (attached) to which Robert Culpin drew your attention when the December PSBR was published. I do not think we need take that particular complaint too seriously (it seems to reflect the grievance of one particular firm), but it does highlight a problem that we have been aware of for some time.

3. This is that the printed press release, which we pore over carefully each month - and which fulfils many essential roles - is an archaic way of getting information to the financial markets, who are the immediate audience for it.

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4. The opening part of the press release is read over the telephone at 11.30 by IDT to Reuters, who then get the key figure on their screen within a couple of minutes. But, as last month, the bald figures may not tell quite the right story.

5. We have therefore been considering with the CSO - who are jointly responsible with the Treasury for the press release - whether we should include, when warranted, a short paragraph noting any special factors we have identified that affect the month's figures. An example of what this might have looked like last month is attached, with the new paragraph (on the first page) sidelined. We would then aim to get this paragraph on to the screens with the flash figure. (We are negotiating with Reuters for a facility whereby the PSBR news could be inputted by the Treasury itself, but it may be some time before this is available.)

6. The comments would necessarily be very brief, and they would have to be kept strictly factual (which may not always be easy given our own lack of knowledge about anything much beyond the borrowing figure itself). They would bring the PSBR press notice more in line with those for the trade figures and the money numbers (though here again the comment is extremely sparse).

7. We would obviously need to clear such a paragraph with you each month. (At the moment we do not clear the press release itself with you, given its standard form, but do clear the briefing to be given to the press offices.) With the move to an 11.30 release time, the time available for clearance is already desperately short. If you do approve of this change, I will bring forward my own monthly meeting on the PSBR to enable the drafts to go to you 24 hours earlier than at present (ie two evenings before the release date), though this will mean that our analysis at that stage may not be complete and also that the figures could change before publication.

8. The case for this change is that it would make any official knowledge of special factors available to all "readers" at

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the same time, and not simply to those who happen to be first in getting through to the Treasury or CSO press office.

9. I should like to be able to say to you that if we made this change IDT would cease talking to the City scribblers about the numbers. But I have been persuaded that this would not be realistic. We will never be able to say very much in the press release itself (particularly with the CSO casting a watchful eye over what is said) and, in any event, IDT cannot in practice draw a distinction between Tim Congden ringing up in his broking role or as a financial journalist. And, of course, so much of the "comment" by financial journalists themselves nowadays simply reports what the City analysts are saying.

Conclusion

10. Treasury officials, and the CSO, recommend including, when warranted, a short paragraph in future PSBR releases drawing attention to any known special factors affecting the numbers. We would also like to take steps to get such a paragraph on to the screens immediately after the number itself is flashed up (though this may not technically be possible yet).

11. Would you be content with this? And, if so, would you wish it to start with the release of the January figures on Tuesday 17 February - provided that there is some factual comment that is worth making then?. If there is no substantial comment to make on those figures, we should stick to the present familiar format until after the Budget. (The next "natural" date for starting would be in May, when the first figures for 1987-88 are published).



F CASSELL

(with like to source of X. -)

FROM: A G TYRIE
DATE: 9 FEBRUARY 1987

CHIEF SECRETARY

cc Financial Secretary
Mr Cropper
Mr Ross Goobey
Mr Kalen

I attach a draft of knocking copy of Opposition spending plans. This is too long and you will want to cut some of it.

2. I have just got hold of Hattersley's weekend speech and, if there is something useful in it, I will do a passage tomorrow.

put this

AGT.

A G TYRIE

3. I think that the IPS quotation (given the extent to which Lab. have tried to cloak themselves in this mantle) and the concluding remarks on Kinnock by Gould are particularly good Commons material.

4. I have not added linking passages yet.

Draft extract on Opposition spending plans

Exactly a year ago, almost to the day, I announced the full year cost of the Labour Party's commitments on public spending. In the spring of last year other Labour spokesmen, and in particular the RHG for (Meacher) made several further pledges and I revised the overall total from £24 billion to £28 billion, this, excluding, £7 billion of further pledges made by the RHG for (Meacher).

2. These costings, which have been carried out at my request by Treasury officials, in consultation with officials and spending departments, have helped clarify for the House and for the wider public, Labour's economic policies.

3. Several lessons are clear.

4. First it is clear that, despite the RHG for Sparkbrook's repeated protestations, they would return to the high spending, high inflation policies which almost bankrupted this country a decade ago. The Labour Party has not learnt the lessons of their ^{its} past failures.

5. We should not be surprised that Labour have returned to the failed policies of yesteryear. Immediately after the last Election the RHG for Islewyn made it clear:

"I don't believe that the policies of ⁿ which we

*This is the agreed
form of words. It
adds granitas
but you may
want to delete.*

fought the Election ought to be ejected, like some sort of spent cartridge." (Tribune, 15 June 1983).

6. So the first lesson of the costings exercise is that Labour have little if anything new to offer. Beneath the razamatazz, the glossy packaging, and the red rose, we have the failed policies of the 1983 Election, the same policies which failed the country last time Labour were in office.

7. I remind the House that in Labour's first year of office last time they increased public spending by over 12% in their first year, the equivalent to £18 billion, or two-thirds of my current estimate of their spending plans. And within two years they had taken the PSBR to 9¼% of GDP, the equivalent today of £35 billion.

8. The second lesson I draw from the £28 billion exercise is that, even in opposition, the RHG for Sparkbrook has little or no control over his spending colleagues.

9. Even since my second costing of £28 billion in July of last year we have had a steady flow of further pledges. Pledges at the Labour Party Conference alone amounted to a further £9 billion. And the week before last came a string of further pledges: a further £1 billion recommended by Ms Harriet Harman on the nursery

budget, over twice the figure I had allowed for in the £28 billion totals; several further pledges in Labour's latest local election document, "Investing in People".

10. That document incidentally reconfirmed a large number of existing pledges.

11. A third lesson that we can all draw from Labour's spending totals is ^{that} Labour have still not learnt to match mere wishes and dreams with economic reality. Labour spokesmen seem wholly uninterested in getting to grips with the detailed implications of their grandiose promises. As the RHG for (Smith) said:

"I am not sure that it's important to cost everything in detail." (Tribune, 8 November 1985)

12. A final conclusion, and the most damaging, must be that the Labour Party are attempting a massive electoral bribe ^{with} and unsustainable promises. Now that Labour's sums have been done for them the sheer scale of that bribe has been exposed.

13. Contained within the £28 billion total we have Labour's so-called "jobs package". What does this consist of? No-one is quite sure. Of Labour's "jobs package" the Institute ~~for~~ of Fiscal Studies report, to which the RHG opposite so often refers, concluded:

"The anti-unemployment programme is still rather vaguely formulated, and has not been costed in detail." (page 5).

For a while we were told Labour would create jobs by imposing compulsory overmanning on the nationalised industries. That crazy scheme has been quietly forgotten. Meanwhile the RHG for Hull East had a try. He at least had the courage to admit that Labour's ludicrous pledge to reduce unemployment by a million in two years was a huge banana skin. Exactly a year ago he said:

"How did we get this promise of one million jobs? Who worked on the programme? Promises such as these simply label us with targets we cannot achieve and exposes our credibility." (Municipal Journal, February 1986).

14. Since then the RHG for Hull East and others have been working on it. He has described Labour local authorities as engines of growth. The RHG for Sparkbrook has been even more explicit. Last June he said:

"Local authorities will lead the way in Labour's drive to reduce unemployment by one million within two years." (June 1986, Association of Direct Labour Organisations).

15. The response has been predictable. Sheffield, Manchester, Haringey, Islington, these councils are queuing up with their big spending plans. A fortnight ago the RHG for (Smith) welcomed the Sheffield scheme:

"An imaginative and workmanlike initiative", he described it. (reported in Guardian, 3 February 1987)

At the end of last year the RHG for Hull East lent his support to the Southwark scheme, a scheme which would have cost a cool £20 billion spread over 2 years if implemented nationally.

16. Have the RHGs Opposite not read the Audit Commission report? Have they not read of the profligacy, the scandalous creative accounting, the overmanning and the mismanagement of eight Labour local authorities? Did they not read the Audit Commission's conclusion:

"One of the lessons of the past is that "throwing money at the problem" all too often simply means more waste." (paragraph 9).

17. The truth is that the RHG for Hull East has been

employment spokesman for two years and he still has no idea how many, if any, jobs could be created by local authorities. Asked about this on "Weekend World" last Sunday he could not give an answer. Asked how these half-baked schemes would be scrutinised he replied:

"We will have to cut corners". (8/3/87)

Asked when he would know the answers the RHG for Hull East said that the matter was being considered by a Policy Committee.

18. When I heard that I was reminded of another scheme of the RHG for Hull East, the training levy which he grandly announced would be implemented at a cost of £5-6 billion, ~~in two years.~~ ^{That made} The RHG for Sparkbrook squirmed ~~about that.~~ He said that the RHG for Hull East would put his training levy proposal:

"to the Policy Committee discussing these matters and we shall see what comes out. (19 November 1986, Hansard col.569).

*Then mention
Could being put
in charge of
the jobs package? ✓*

Conclusion

19. Nearly four years on and it's back to the drawing board for Labour. It's all in policy committees. Nothing new to say on jobs, nothing new to say on training, nothing new to say on public spending.

20. Labour are falling back on the policies so decisively rejected at the last Election. Promises to reduce unemployment without explanations on how to achieve it, unsustainable promises for higher public spending. On those ^{promises} the RHG for Sparkbrook was right when he said:

"Our economic policy - the promise to put Britain back to work - was a net vote loser. Nobody believed that our theories could be put into practice. Our vague hopes of achieving growth through Government spending were barely understood and rarely believed." (Guardian 18 July 1983).

21. That is the size of Labour's credibility gap. It is a yawning gulf between the Labour Party and Government, one they have no means of traversing.

22. The RHG for Dagenham has another opportunity to try and bridge that gap today. He can tell me which pledges from the £28 billion table the Labour Party will drop. He can tell us whether we should accept the RHG for Hull East's suggestion that the Labour Party would want to abandon the pledge to introduce a minimum wage, to introduce the 35-hour week, and to introduce early retirement. Are these ^{for} ~~an~~ implementation in the lifetime of a Parliament, yes or no?

23. If the Hon Members opposite are sitting uncomfortably as they hear this they should spare a thought for the

Hon Member for Islwyn. He has the task of putting back together the pieces of Labour's egg-shell like credibility. He has the task of putting Humpty Dumpty back together again.

24. If Labour is to be taken seriously they will have to tackle these problems. Anyone who ^{has world? can} has read Joel Barnett's book of the last Labour Government knows how tough it will be. It would take a firm hand and clear thinking. It would take some worldly wisdom. But as the RHG for Dagenham said recently, his leader:

X | "tends to fall short in terms of experience and toughness." (International Herald Tribune, 3 February 1987)

1. So-called 'Alliance' policies used to come in pairs. Now, for the time being at least, the Liberals/SDP have glued together a joint document.
2. But the price of partnership has been to take out almost all the pledges. Last November we had newspaper reports of lavish spending plans, costing at least an extra £15 billion.
3. For a Party with no hope of power the solution has been easy enough: remove all the numbers. Where once we found a pledge now there is nothing but weasel words before it; talk of long-term objectives, aims, lists of commitments which "could be included".
4. It is back to the empty rhetoric we were accustomed to hear from the Liberal Party before the policy laden SDP bandwaggon came on the scene.
5. The casualties have been Liberal policies.
6. What for example has become of the Liberals' clear pledge, made only a year ago, to phase out all nuclear power stations (page 17, These Are Liberal Policies)?
7. What has become of the Liberal pledge to give "local authorities the right to decide whether or not to sell Council dwellings and the terms of the sale" (These are Liberal Policies).

8. No wonder David Steel is hoping for an early Election. He can't face a Liberal Conference with a commitment to keep nuclear power stations.

FROM: COLIN MOWL
DATE: 13 February 1987

CHANCELLOR

Ch
Draft press
briefing (for approval)
below *AA*

cc Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Sedgwick
Mr Ritchie
Dr Clark

Thanks. See below +
on press briefing
note. m.

MONTHLY NOTE ON THE PSBR AND FORECAST FOR 1986-87

- 1. I attach the draft monthly note.
- 2. The revised forecast of the PSBR in 1986-87 as a whole is £4.3 billion, compared with a forecast of £5.2 billion in the January Economic Forecast. The main changes are:

(i) Reducing borrowing

- (a) lower supply expenditure (£0.3 billion);
- (b) higher excise duties (£0.4 billion). Most of this is higher tobacco duty following a reappraisal by Customs of the rules in relation to forestalling, in the light of information on clearances from bond in January (which will affect revenues in February);
- (c) lower local authority borrowing (£0.2 billion) following downward revisions to the first nine months;
- (d) lower public corporations borrowing (£0.2 billion) following the January outturn.

(ii) Increasing borrowing

- (a) lower privatisation proceeds (£0.2 billion);
- (b) lower VAT in light of lower than expected January receipts (£0.2 billion).

Ch
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Now/FSBR.
AA

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find in this note.

Y6 pr; also
Estimate PX
outturn of plans
(x AS)

Colin Mowl

COLIN MOWL

PUBLIC SECTOR BORROWING

Summary

- The PSBR for January is provisionally estimated as a surplus of £3.7 billion. Last month's forecast was for a surplus of £3.4 billion, the difference being due mainly to lower than forecast borrowing by public corporations. City forecasts of the surplus range from £1¾ - £3½ billion, with an average of £2¾ billion.
- Borrowing in April-January 1986-87 was £0.4 billion; this is £3.8 billion below the Budget profile (Chart 1). Borrowing by all three sectors is running below profile. The PSBR was £2.7 billion lower than in April-January 1985-86 (Chart 2).
- The PSBR in the last two months of the year is forecast to be about £3¾ billion, bringing the total for 1986-87 to £4¼ billion, £2¾ billion below the 1986 Budget and Autumn Statement forecasts. Provisional results from a DoE survey of local authority borrowing intentions indicate high borrowing in the last two months.

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

Chart 1 : Comparisons with Budget profiles for 1986-87

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = Latest forecasts
- = Budget profile

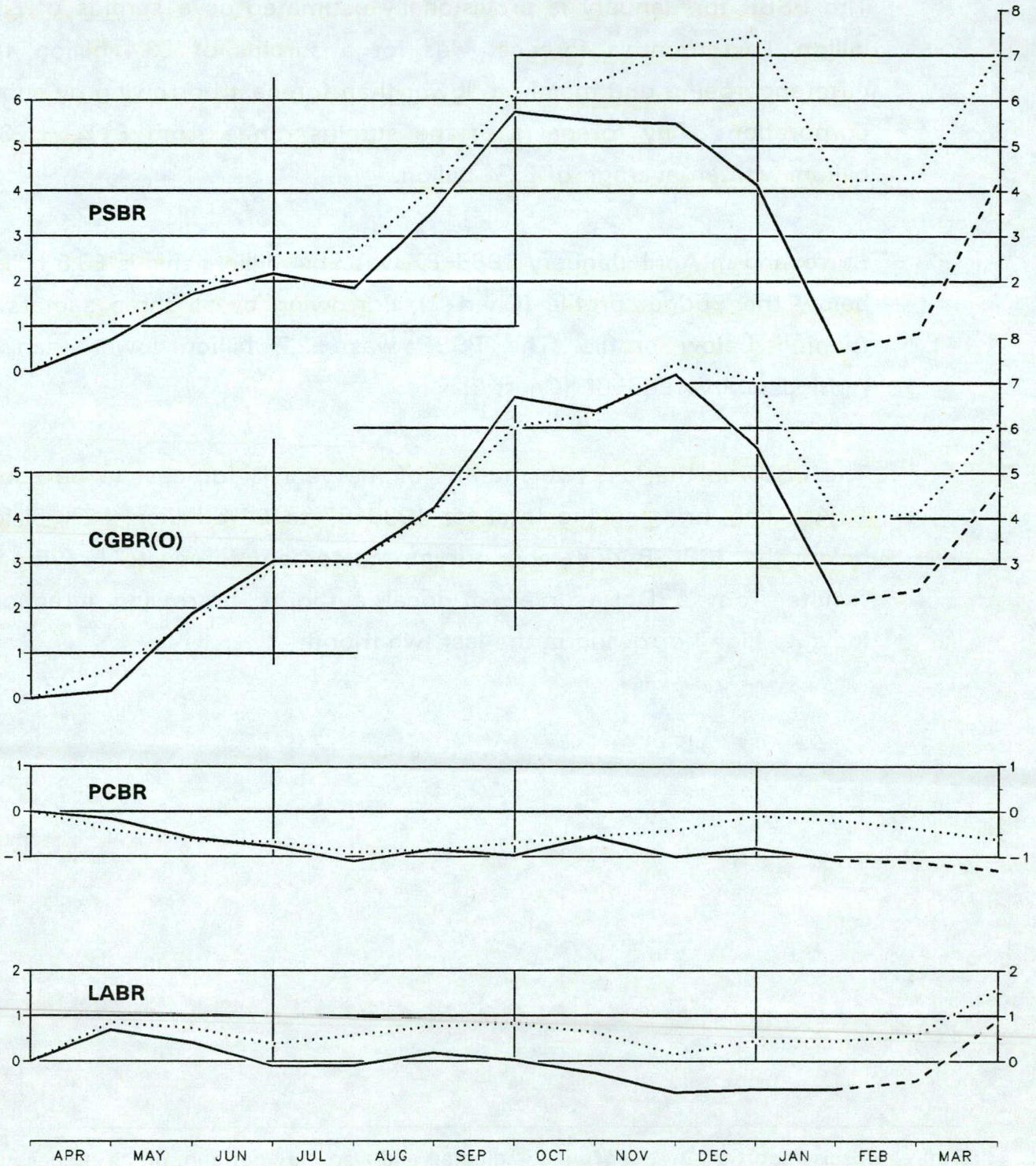
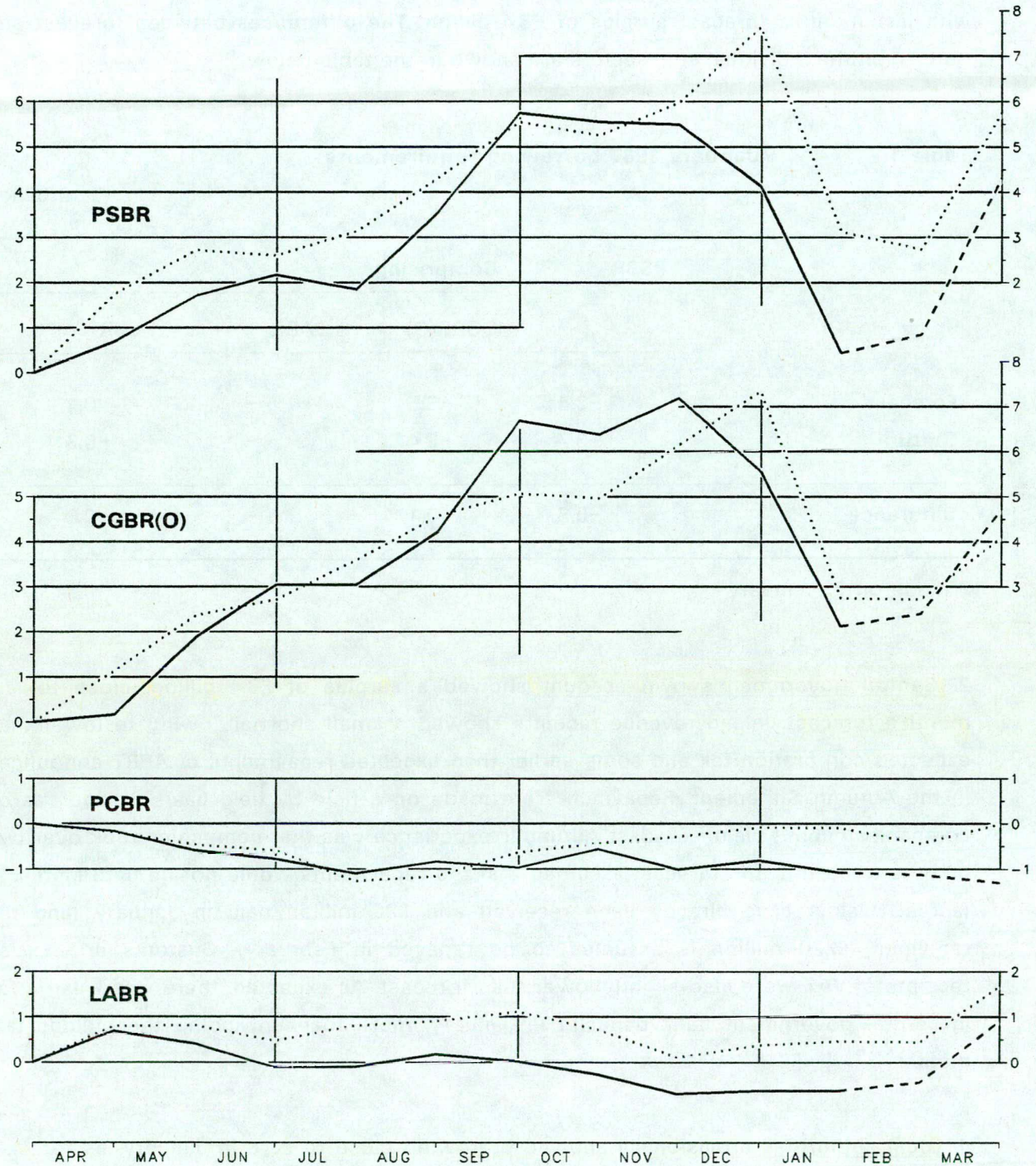


Chart 2: Comparisons with last year's outturns

£ billion cumulative

- = Estimated outturn in 1986-87
- - - = Latest forecasts
- = 1985-86 outturn



Borrowing in January

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in January is a surplus of £3.7 billion, compared with last month's forecast surplus of £3.4 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

Table 1: January 1987 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	-3.4	-3.5	-	0.1
Outturn	-3.7	-3.4	-	-0.3
Difference	-0.3	0.1	-	-0.3

*made on 23 January

2. **Central government's own account** showed a surplus of £3.4 billion, close to last month's forecast. Inland revenue receipts showed a small shortfall, owing to lower than expected corporation tax and some earlier than expected repayments of APRT announced in the Autumn Statement. Repayments are made on a field by field basis as soon as oil companies submit claims. As last Autumn's experience was that companies took over two months to do this, the forecast assumed that the repayments would not be until March. In fact all claims have already been received and £80 million paid in January (and the remaining £220 million is assumed to be repayed in February). Customs and Excise receipts of VAT were also slightly lower than forecast. As expected, there was a large fall in central government bank deposits in January, more than unwinding the buildup last month.

4. **Local authorities** provisionally showed borrowing close to zero in January, as forecast last month.

5. Public corporations provisionally ran a surplus of £0.3 billion, compared with forecast borrowing of £0.1 billion. Most of the difference is due to a higher than expected Electricity Supply Industry surplus.

April to January

(Outturn compared with Budget forecast)

Table 2: Total April-January borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	4.2	4.0	0.4	-0.2
Outturn	0.4	2.1	-0.6	-1.1
Difference	-3.8	-1.8	-1.1	-0.9

6. The cumulative PSBR for the first ten months of 1986-87 was £0.4 billion; the estimate for April-December has been revised downwards by £0.4 billion since last month, following receipt of later information. The April-January outturn is £3.8 billion below the Budget profile (see Chart 1 and Table 2) and £2.7 billion lower than in April-January 1985-86 (Chart 2). Borrowing by all three sectors is below profile.

7. Cumulative borrowing in April to January on central government's own account was £1.8 billion below the Budget profile. The table overleaf shows our present view of differences on individual components.

Table 3: CGBR(O) April-January: Comparison with Budget profile

£billion (- indicates lower borrowing)

Non-oil taxes	-2.2
Oil taxes and Royalties	+1.0
National Insurance Contributions	-0.5
Privatisation proceeds	-0.4
Net debt interest	+0.3
Supply (excluding advance EC contributions)	+0.2
Other (including departmental balances)	-0.3
Net effect on CGBR(O)	-1.8

- Among non-oil taxes, VAT and Corporation Tax more than account for the excess over the Budget profile
- About £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 into 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high
- Higher supply expenditure is mainly due to social security and grants to British Coal. Within other expenditure, higher net contributions to the EEC are more than offset by unidentified changes in departmental balances with the Paymaster General's Office. These changes may imply that the recorded outturn for supply expenditure is too high, or simply reflect a mismatch in the recording of the timing of receipts and expenditure. How much is due to each of these alternative explanations is crucial for the forecast (see paragraph 14).
- Although privatisation proceeds to end - January have been higher than in the fairly arbitrary path assumed in the budget profile, proceeds in the year as a whole are likely to undershoot the Budget forecast (see paragraph 19).

SECRET

CONSOLIDATED FUND REVENUES - per cent changes on year earlier

	FORECAST FOR 1986-87		APRIL-JANUARY 1986-87	
	(i) FSBR(a)	(ii) Latest Forecast (b)	(iii) FSBR	(iv) Outturn
1. Total Inland Revenue	1½	2½	3½	5
of which: Income Tax	8½	9	12	11
Corporation Tax (c)	14½	32	13	31
North Sea taxes (d)	-52½	-64½	-45½	-60
Other (Stamp Duties and Capital Taxes)	9	26	11	25
2. Customs and Excise	8½	10	8	10
of which: VAT	7½	11½	6½	11½
Specific Duties	9½	8	9½	8½
Other (e)	8	8	8½	7½
3. Vehicle Excise Duty	3	4	5	4
4. Asset Sales	90	62½	27½	45
5. Other Consolidated Fund Revenue*	-31½	-25½	-38	-30
6. Timing Adjustment (f)	-	64	100	-450
7. TOTAL CONSOLIDATED FUND REVENUE	2½	4½	2½	4½
Memorandum Items:				
Non North Sea Taxes	10	12	10	13
North Sea Oil Taxes and Royalties	-54½	-63½	-48½	-61

* This includes oil royalties (significantly different from 1985-86), also EC refunds, coinage receipts, and CFERS (all significantly different from 1985-86 for purely accounting reasons, having no effect on the CGBR(0)). Thus comparisons with 1985-86 will be of little value

(a) using 1985-86 outturn as estimated in 1986 FSBR

(b) using 1985-86 outturn as estimated in latest forecast

(c) Includes onshore and North Sea ACT

(d) Payments of PRT, advance PRT and North Sea corporation tax but excluding royalties

(e) Includes difference between receipts and payments to Consolidated Fund for April to January

(f) Reflects privatisation proceeds paid initially to Paymaster General and then to Consolidated Fund

8. Table 4 on Consolidated Fund Revenues compares revenues as far with the same period in 1985 as well as with the Budget profile. It shows that increase in VAT and Corporation Tax have been much greater than expected at Budget time. Corporation tax in the ten months to January was over 30 per cent up on the same period in 1985-86 and VAT receipts 11 per cent higher.

9. For the year to January, total receipts of VAT were £0.8 billion higher than the Budget profile. However, £0.5 billion of this overshoot is accounted for by two months, September and October. This may indicate that the Keith administrative changes, and in particular the introduction of a default surcharge from 1 October, may have had a bigger once-for-all impact on VAT receipts (through accelerating payments) than earlier expected. The evidence for this is, though, entirely circumstantial.

10. Local authorities had a surplus of £0.6 billion in April-January, compared with forecast borrowing of £0.4 billion in the Budget profile. Data on local authorities' spending and income is available for the first half of the financial year only, and is not comprehensive. It suggests that lower borrowing may reflect higher than expected capital receipts from council house sales, and the additional grant which the authorities have received from grant recycling.

11. Public corporations had a surplus of £1.1 billion in April-January, a higher surplus (by £0.9 billion) than in the Budget profile. The limited information available suggests that lower than expected borrowing reflects lower than expected capital spending rather than better trading performance. There also appears to have been a larger than normal amount of trade credit extended to public corporations during the year.

February and March

12. The PSBR for the final two months of the year is forecast at £3¾ billion, with most of the borrowing in March. The forecast for the two months together is about £1 billion higher than the Budget profile. (See Table 5).

13. Table 7 shows the latest detailed profile of borrowing on central government own account for February and March. A comparison with the Budget forecast for 1986-87 and

the outturn for 1985-86 is provided in Table 8.

14. In February and March, the CGBR(O) is forecast to be £½ billion higher than in the Budget profile (see paragraph 19). The main uncertainties are the size of the end year surge in expenditure and the extent to which the large rise in departmental balances is unwound in the last two months. We have not assumed that this increase is fully run down – this is equivalent to assuming an underspend of £200 million on the expenditure components of the CGBR(O).

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

- In February, borrowing of £¼ billion is forecast. Privatisation proceeds (sale of BA) are assumed to raise £0.4 billion net of sales cost. VAT receipts will be high (as they are in May, August and November). The remaining £220 million of APRT repayments is assumed to be made in the month.
- In March, the CGBR(O) is forecast to be £2¼ billion. Expenditure on Rover of £650 million is included. Adjusting for this, the end-year surge in supply expenditure is slightly higher than last year, though lower than in 1984-85. Privatisation proceeds (repayment of BGC debt) are assumed to raise £¾ billion. Interest receipts are high, as are debt interest payments.

16. Local authorities are assumed to show net borrowing of about £1½ billion over the next two months, slightly higher than the Budget profile. This forecast is derived mainly from the DoE borrowing intentions survey for the final quarter of the financial year, and is in line with the February – March LABR of recent years; over the last four years, this has consistently been in the range £1¼ – £1½ billion.

17. Public corporations are forecast to repay £¼ billion over the next two months, a slightly lower repayment than in the Budget profile and represents higher than expected borrowing by British Coal. The repayment is of course generated chiefly by the Electricity Supply Industry, which benefits from heavy seasonal receipts in the last quarter of the financial year.

1986-87

18. The PSBR for 1986-87 as a whole is thus forecast at £4¼ billion, over £2¾ billion lower than the Budget profile.

19. The CGBR(O) is forecast to undershoot the Budget forecast by £1½ billion, compared with an undershoot of £1.8 billion at end-January. The main reasons for differences from the Budget profile expected in the next two months are:

- privatisation proceeds so far are £0.4 billion above the level assumed in the Budget profile, but the annual target is assumed to be undershot by £350 million. This assumes £0.4 billion for BA and £¾ billion for BGC debt, giving an annual total of £4.4 billion.
- the balance (£0.2 billion) of the repayment of APRT announced in the Autumn Statement.
- expenditure of £650 million on Rover was not anticipated in the Budget profile, but this is partly offset by lower spending on other components of supply.
- an increase (by £0.3 billion) in tobacco duty as a result of higher than expected Budget forestalling.
- the assumed partial unwinding of the build up in departmental balances.

These factors are partially offset by others, particularly non-oil tax receipts, working in the opposite direction.

20. Local authorities are forecast to borrow £¾ billion less than in the Budget forecast. The only identifiable reasons are those are given in paragraph 10 ie lower net capital spending and grant recycling.

21. Public corporations are also forecast to borrow nearly £¾ billion less than in the Budget forecast. This is due to lower than expected capital expenditure and the favourable effect of trade credit transactions.

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Table 5: Latest monthly profiles
(1986 Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.0	<i>0.7</i>	1.7	<i>1.0</i>	-0.3	<i>-0.1</i>	-0.4	<i>-0.2</i>
Jun	0.5	<i>0.8</i>	1.2	<i>1.2</i>	-0.5	<i>-0.3</i>	-0.2	<i>-</i>
Jul	-0.3	<i>-</i>	-	<i>0.1</i>	-	<i>0.2</i>	-0.3	<i>-0.2</i>
Aug	1.7	<i>1.4</i>	1.2	<i>1.2</i>	0.3	<i>0.2</i>	0.3	<i>0.1</i>
Sep	2.2	<i>2.1</i>	2.5	<i>1.9</i>	-0.1	<i>0.1</i>	-0.1	<i>0.2</i>
Oct	-0.2	<i>0.2</i>	-0.3	<i>0.3</i>	-0.3	<i>-0.2</i>	0.4	<i>0.2</i>
Nov	-0.1	<i>0.8</i>	0.8	<i>1.1</i>	-0.4	<i>-0.5</i>	-0.4	<i>0.1</i>
Dec	-1.4	<i>0.3</i>	-1.6	<i>-0.4</i>	0.1	<i>0.3</i>	0.2	<i>0.3</i>
Jan	-3.7	<i>-3.2</i>	-3.4	<i>-3.1</i>	-	<i>-</i>	-0.3	<i>-0.1</i>
Feb	0.4	<i>0.7</i>	0.3	<i>0.7</i>	0.2	<i>0.7</i>	-0.1	<i>-0.2</i>
Mar	3.5	<i>2.8</i>	2.3	<i>2.0</i>	1.3	<i>1.0</i>	-0.2	<i>-0.2</i>
Cumulative								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.7	<i>1.8</i>	1.9	<i>1.7</i>	0.4	<i>0.7</i>	-0.6	<i>-0.6</i>
Jun	2.2	<i>2.6</i>	3.0	<i>2.9</i>	-0.1	<i>0.4</i>	-0.8	<i>-0.7</i>
Jul	1.9	<i>2.7</i>	3.0	<i>3.0</i>	-0.1	<i>0.6</i>	-1.1	<i>-0.9</i>
Aug	3.6	<i>4.1</i>	4.2	<i>4.2</i>	0.2	<i>0.8</i>	-0.8	<i>-0.8</i>
Sep	5.8	<i>6.2</i>	6.7	<i>6.0</i>	-	<i>0.8</i>	-1.0	<i>-0.7</i>
Oct	5.6	<i>6.4</i>	6.4	<i>6.3</i>	-0.3	<i>0.6</i>	-0.6	<i>-0.5</i>
Nov	5.5	<i>7.2</i>	7.2	<i>7.4</i>	-0.7	<i>0.2</i>	-1.0	<i>-0.4</i>
Dec	4.1	<i>7.4</i>	5.6	<i>7.1</i>	-0.6	<i>0.5</i>	-0.8	<i>-0.1</i>
Jan	0.4	<i>4.2</i>	2.1	<i>4.0</i>	-0.6	<i>0.4</i>	-1.1	<i>-0.2</i>
Feb	0.8	<i>4.3</i>	2.4	<i>4.1</i>	-0.4	<i>0.6</i>	-1.1	<i>-0.4</i>
Mar	4.3	<i>7.1</i>	4.7	<i>6.1</i>	0.9	<i>1.6</i>	-1.3	<i>-0.6</i>

Figures for April to January are outturns

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Table 6: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile

£ billion

	1985-86	1986-87		Differences from	
	Outturn	Budget profile	Latest update ⁽¹⁾	1985-86 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	1.8	1.1	0.7	-1.1	-0.4
May	1.0	0.7	1.0	-	0.3
Jun	-0.1	0.8	0.5	0.6	-0.4
Q2	2.6	2.6	2.2	-0.4	-0.5
Jul	0.5	-	-0.3	-0.9	-0.4
Aug	1.2	1.4	1.7	0.5	0.3
Sep	1.2	2.1	2.2	1.0	0.1
Q3	2.9	3.6	3.6	0.6	-
Oct	-0.3	0.2	-0.2	0.1	-0.4
Nov	0.7	0.8	-0.1	-0.8	-0.8
Dec	1.7	0.3	-1.4	-3.0	-1.6
Q4	2.1	1.3	-1.6	-3.7	-2.9
Jan	-4.5	-3.2	-3.7	0.8	-0.5
Feb	-0.4	0.1	0.4	0.8	0.3
Mar	3.0	2.8	3.5	0.4	0.7
Cumulative					
Apr	1.8	1.1	0.7	-1.1	-0.4
May	2.7	1.8	1.7	-1.0	-0.1
Jun	2.6	2.6	2.2	-0.4	-0.5
Jul	3.1	2.7	1.9	-1.3	-0.8
Aug	4.3	4.1	3.6	-0.8	-0.5
Sep	5.6	6.2	5.8	0.2	-0.4
Oct	5.3	6.4	5.6	0.3	-0.8
Nov	6.0	7.2	5.5	-0.5	-1.7
Dec	7.6	7.4	4.1	-3.5	-3.3
Jan	3.1	4.2	0.4	-2.7	-3.8
Feb	2.7	4.3	0.8	-1.9	-3.5
Mar	5.8	7.1	4.3	-1.4	-2.8

⁽¹⁾Figures for April to January are outturns

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**Table 7: Central government transactions – January
outturn and latest forecasts for February–March**

£ billion

	January		Latest forecasts	
	forecast	outturn ⁽¹⁾	Feb	Mar
Receipts				
<i>Consolidated Fund</i>				
Inland Revenue	10.5	10.3	4.0	4.2
Customs and Excise	3.3	3.2	4.0	3.4
Other ⁽²⁾	0.8	0.8	1.5	1.7
<i>National Loans Fund</i>				
Interest etc. receipts	0.3	0.3	0.4	1.0
Total Receipts	14.9	14.6	10.0	10.2
Expenditure				
<i>Consolidated Fund</i>				
Supply expenditure ⁽³⁾	8.8	8.6	8.3	10.6
Adjustment to Supply Services basis ⁽⁴⁾	-	0.5	-	-0.8
Other	0.6	0.6	0.5	0.5
<i>National Loans Fund</i>				
Service of the national debt	2.1	2.0	1.2	1.4
Net lending	0.1	-	0.1	1.5
Total Expenditure	11.5	11.8	10.0	13.2
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	-	-0.5	0.3	0.8
CGBR	-3.4	-3.3	0.3	3.8
On-lending	0.1	0.2	-	1.5
CGBR(O)	-3.5	-3.4	0.3	2.3

⁽¹⁾Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

⁽²⁾Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

Table 8: Central government transactions⁽¹⁾ – comparisons for 1986–87

£ billion

	1985–86	1986–87	
	Outturn	Budget forecast	Latest update
Receipts			
<i>Consolidated Fund</i>			
Inland Revenue	55.4	56.0	56.9
Customs and Excise	37.4	40.4	41.4
Other ⁽²⁾	13.3	12.5	13.1
<i>National Loans Fund</i>			
Interest etc. receipts	6.6	6.9	6.7
Total Receipts	112.8	115.8	118.1
Expenditure			
<i>Consolidated Fund</i>			
Supply expenditure ⁽³⁾	97.9	101.0	102.0
Adjustment to Supply Services basis ⁽⁴⁾	0.2	–	–
Other	4.5	5.1	5.1
<i>National Loans Fund</i>			
Service of the national debt	14.2	15.4	15.6
Net lending	6.4	5.7	5.1
Total Expenditure	123.2	127.2	127.8
Other funds and accounts (+ increases borrowing) (– reduces borrowing)	0.6	0.5	0.4
CGBR	10.9	11.9	10.1
On-lending	6.8	5.8	5.4
CGBR(O)	4.1	6.1	4.7

⁽¹⁾Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.

⁽²⁾Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

FROM: A Turnbull
DATE: 13 February 1987

CHIEF SECRETARY

C.
Paras 1-9 deal with the economy; 10-18 the general approach to public expenditure; & the rest comment on the TCSC report. The only announcement is about the ending of manpower targets, which comes at the very end (paras 37-41).

- cc Chancellor
- FST
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Scholar
- Mr Luce
- Mr Spackman
- Mr Edwards
- Mr Pirie
- Miss O'Mara
- Mr Culpin
- Mr Gieve
- Miss Evans
- Mrs Dunn
- Mr Tyrie

Material from A. Tyrie attacking Labour below.

AH

TCSC REPORT: SPEECH FOR PUBLIC EXPENDITURE WHITE PAPER DEBATE

I attach a revised version of the draft for the speech. It takes into account comments from divisions and also reflects the changes made to the Committee's report between draft and publication. The main changes are:

- (i) the passage on overfunding has been dropped;
- (ii) the accusation that in giving greater emphasis to the GGE/GDP ratio "the government no longer has a short-term objective for public expenditure" has been toned down (paragraph 12);
- (iii) a new paragraph 22 on Mr Wainwright's obsession with costing in the Vehicle Inspectorate has been added;
- (iv) the passage on local authority capital expenditure and receipts has been dropped (I understand the Committee ran out of time to consider this adequately);
- (v) a recommendation that the Government should veto any increase in the 1.4 per cent VAT ceiling has been added.

A for Comm
Passion
Also neither AT nor
AT have a piece -
some work - on
our mc. in Sp
announced in Nov. &
Lab's attempt to
put in
both in
irresponsible
pre-clude
Sp
Sp
quality
man's
This with make
a useful look
into - in two drafts -
one on
position
below's
& attach

2. The new draft has been modified to take account of (ii). I assume you will not want to volunteer anything on (iii) in the speech (though I have asked for a note to be prepared).

3. I have taken out of the speech the passage on (iv) but it is now attached as a self-contained piece for use in an intervention. On (v), I have commissioned a form of words, though again you may not want to follow the Committee into this subject.

4. It is possible that Mr Townend could return to his objection that the public expenditure/GDP ratio does not fall if account is taken of the coal strike. We provided an answer to this which was published in the Committee's report on the Autumn Statement. This is attached.

AT

A TURNBULL

May 6
or heading

PUBLIC EXPENDITURE WHITE PAPER DEBATE: CHIEF SECRETARY'S SPEECH

The annual debate on the public expenditure White Paper provides a welcome opportunity to consider not only the main features of the White Paper, but also to reflect on the observations made in the report by the Treasury and Civil Service Committee. It also provides this year an opportunity to contrast the different ways in which we on this side of the House approach the issue of public expenditure from that seen on the benches opposite.

2. An important difference between us is that we have always emphasised that what the Government spends must reflect the resources available, and that in turn depends upon the performance of the economy. Wealth must be created before it is spent. The Opposition, by contrast, believe in an ambitious programme of public spending so that, when taxes have been raised to pay for it, the private sector has to put up with what is left.

3. Our preference ~~for~~ giving priority to strengthening the economy and achieving sustained growth has been entirely vindicated. The fact that we have been able both to improve the performance of the economy which in turn has permitted us to make a modest addition to our spending plans has left the Opposition nonplussed.

4. Their response is entirely predictable. Having failed spectacularly to agree on anything resembling an economic strategy of their own, they have instead embarked on a vain attempt to instil terror into the House and the electorate at large, conjuring up an apocalyptic vision of balance of payments crisis - the end of civilisation as we know it. Anything to divert attention from the actual performance of the economy and the paucity of their own policies. For they well know that as soon as anyone looks at the facts, all their arguments melt away.

5. In recent months, inflation has been registering rates last seen 20 years ago, while Government borrowing last year

and this looks set to be the lowest since the early 1970s. Our firm financial policies have in turn laid the foundation for sustained growth in output and employment, fostered by the steps we have taken to improve the way in which markets of all kinds operate.

6. We are now well into our sixth successive year of growth, averaging nearly 3 per cent^a year ~~in, year out~~ - the longest sustained expansion since the oil price rise of 1973. And I have to disappoint the benches opposite who have been making frenzied efforts to attribute this steady rise in output to a consumer boom of gigantic proportions. Over the same period, consumers' expenditure has risen by an annual 3 per cent - just as fast and no faster than it did under the last Labour Government's recovery. But investment has risen faster still at over 4 per cent a year - twice as fast as the Community average. When the Labour Government was last in office, the corresponding annual increase in investment was a paltry 1¼ per cent.

7. Employment has grown strongly since the country gave us its overwhelming vote of confidence in June 1983. The number of new jobs has risen for 14 quarters in a row - the longest period of continuous employment growth for almost 30 years - so that there are now over a million more jobs in the economy than there were at the time of the last election. That is more new jobs than in all the other EC countries put together. And we have seen unemployment turn down too. Over the last 6 months it has fallen by 100,000, the biggest drop for 13 years: not only faster than at any time under this Government but faster than at any time under our predecessors either.

8. So the economy is now doing very well. The steady progress of recent years is continuing. Indeed, in many areas it is speeding up. Take manufacturing, for example, which hon members opposite tell us is in terminal crisis. Manufacturing profitability is higher than at any point for the last 13 years, and our manufacturing exports have reached record levels. And productivity here has risen faster than in any other industrialised country.

9. But hon Members opposite cannot bring themselves to welcome good news for the economy. So they resort, as usual, to predicting, Cassandra-like, a crisis yet to come. This time they have chosen the balance of payments. But since we came to office, the balance of payments has been in surplus to the tune of £21 billion. And our net overseas assets now total £80 billion - one of the largest holdings in the world - now yielding an annual income of almost £5 billion. These facts speak for themselves.

when the word a deficit of £5bn plus

10. Let me now turn to the main themes of the White Paper. The first is that it demonstrates our consistency of purpose, both for public spending in the aggregate and for our priorities. The second is that we are providing effective management of public spending and are increasingly getting better value for money.

11. As I have indicated, the success of our economic policies has enabled us, responsibly, to raise our public spending plans. In doing so we have been able to give the assurance that there would be no increase in borrowing this year or next. Our plans now allow for a growth of just over 1 per cent a year in real terms. But this is significantly less than we expect for the economy as a whole.

12. In consequence, the Government's fundamental objective of reducing public spending as a proportion of national income is being delivered and will continue to be so. The ratio of general government expenditure to GDP has been falling over the past 4 years and will do so over the next 3. Perhaps I could elaborate on the significance of this.

13. For 20 years from the early '60s public spending outstripped the growth of the economy so that the share of national income taken by the state inevitably rose. There were two breaks in this trend, in 1968 and 1977. Both followed periods of rapid expansion of spending under Labour Governments, followed by intensive interviews with their creditors. Both periods of

Is this so? Check post-war period in '70s

remission lasted only 2 years. Once the immediate crisis had passed, the upward trend was allowed to resume. The 4 years of reduction we have seen are thus already the longest so far achieved since the war economy was dismantled. And the trend will continue for some time to come.

14. Not only are our financial objectives being achieved, but we have been able to strengthen priority of services. Extra funds have again been allocated to health, education and law and order.

15. Unlike the Party opposite, we do not judge the contribution of a programme by the resources that are put in but by the service that is delivered. The significance of the White Paper is the account it provides, across the whole of Government, not only what is planned to be spent but also what the country is getting for it. More information than ever is given on the outputs being achieved, on measures of performance, and on the targets which departments are setting themselves. Increasingly it will be possible to judge a department's performance by relating what has been achieved with the target it set itself.

16. Let me emphasise that these measures of output and performance are not simply descriptive material produced for the purposes of the White Paper. They are being used by departments in their day to day management of programmes, a point which was rightly commended by the Committee in its report.

17. I see three benefits from this:

- by relating outputs to the costs involved, managers can make better choices;
- by setting out in advance what a programme was expected to achieve, subsequent review and evaluation is improved;
- by telling the outside world, including this House, what has been achieved and how that relates to previous targets, ~~managers in~~ departments are made more accountable.

18. All this illustrates a key difference in philosophy between this side of the House and the benches opposite. We place emphasis on the services being provided to the Community and to customers; they are a party dominated by the interests of the producers.

19. Let me now turn to the report produced by the Treasury and Civil Service Committee. This was published only 5 days ago and the Treasury will want to reflect on it before making its formal reply. I would like, however, to offer observations on a number of points.

20. The Committee have again suggested that this debate would be better scheduled in May or June on the grounds that it would give more time for the Committee's consideration of the White Paper; and also because it would place the debate at a time of year when they believe it would have greater impact on the Survey. I recognise the pressures which the present timetable present and I am grateful to the Committee for having taken evidence and produced a report within 4 weeks of publication. I continue to doubt, however, whether their proposal would be an improvement.

21. First, we now in effect have a two-stage process as the Committee acknowledge - the Autumn Statement, which the Committee examine in November when most of the macro-economic issues will be covered, and the White Paper in January when the details of the programmes are spelled out. Though the two occasions are different, they are still part of the same process. I doubt if it makes sense to delay the debate on the second to 6 months later, well into the first year for which plans have been published.

22. Secondly, the advantage of a debate in February is that it can be guaranteed to concentrate on public expenditure issues. I cannot help feeling that a debate in May, by which time a Budget will have intervened, would not concentrate on public expenditure issues in the way that we will do today. I for one would regret that.

23. Finally, I doubt whether changing the timing would increase the influence on the Survey. We already have a Survey process lasting 13 or 14 months. While we continue to debate the outcome of the last Survey, the Treasury and departments are already planning the next. If the House is to influence the way in which the Survey is conducted, the earlier its views are fed into the planning process the better.

24. The Committee suggested that in emphasising the objective of reducing public expenditure as a proportion of national income, there could be a weakening of control. I would like to reassure the Committee on this point. In order to secure progress towards the medium-term objective, the Government each year sets intermediate targets in the form of cash planning totals. We continue to attach importance to the achievement of the planning total - for 1987-88 set at £148.6 billion - which is why we take such care to scrutinise claims on the Reserve. Our record of delivering the planning total each year has not been perfect, but has been a creditable one - the average overrun for the planning total set for the year ahead has been about 0.8 per cent, and but for the coal strike would have been about half that.

over what period?

25. The Committee's warning against basing plans on over-optimistic assumptions about economic growth is entirely right. But it is to the party opposite that the point should be directed. In our Green Paper on the Long Term we assumed $2\frac{1}{4}$ per cent growth for the 5 years to 1988-89. In the first 3 years we have done considerably better than that, averaging nearly 3 per cent.

26. Next I would like to comment on the Committee's continuing interest in the relative price effect. Rising prosperity means that pay rises over the long term faster than prices generally, and the public services are relatively manpower intensive. But I doubt if this observation about movements in the cost of inputs has anything like the significance sometimes claimed for it. It is of no interest if one is concerned to measure the output of the public services, not does it provide any basis for policy.

27. One reason for this is that for many public services, eg defence, health and education, there is no precise measure of output. As a result, the national income statisticians have adopted the practice of measuring output by using inputs as a proxy. This implies that the productivity of the inputs is constant. This is not an empirical observation but merely a statistical artifice. We know that it is not true. In many public services productivity is rising, according to some recent studies perhaps as fast as for comparable work in the private sector. Output also changes in quality. For example, new weapons systems, medical equipment^{drugs}, or computers may be substantially more effective than those they replace, in ways which price indices do not capture.

28. It seems to me unwise to emphasise a concept which ignores improvements in productivity and in quality and value for money - improvements which the Government is actively working to promote.

29. I also believe that the constant pursuit of the relative price effect is inconsistent with the way public expenditure is planned and controlled. We have moved a long way from the system of volume planning when each year inputs in volume were uprated by specific price indices. This is a change that I, as a member of the TCSC's predecessor, strongly favoured. Our plans are now set in cash terms and an increase in the RPE, as measured, does not mean that expenditure will exceed the cash plans, though it may put pressure upon them. It is up to departments which face such pressure to take steps to remain within their budgets. In my view this is exactly how the pressures should operate if managers of programmes are to be given the right signals.

30. In conclusion I am happy for the relative price effect to remain between the covers of the National Accounts Blue Book as a concept for statisticians to analyse. I see no case for giving it any emphasis in the public expenditure White Paper.

31. We have in recent years substantially improved and increased the information provided in the White Paper. While welcoming this, the Committee also point out that it has become a very large document. The Treasury, as editors, are conscious of the amount of work involved.

32. The Committee have suggested that the departmental chapters should become separate departmental reports and that Part 2 could contain more studies of the kind included in the recent Treasury Working Paper. I would go part of the way in this.

33. If we do not want to enlarge the White Paper, we need to consider other ways in which additional material, for example that provided to Select Committees, could be made available. The statement on the Defence Estimates and the Scottish Commentary already perform this role, and the Treasury is encouraging ^{other} departments to go down this road. But I would still want to see a core of material on each programme included in the White Paper. I wonder whether users would find a White Paper largely confined to the aggregates plus 20 separate booklets as convenient to use; in total it would certainly be more expensive to produce.

34. These are, however, preliminary reactions, and the Treasury and departments will be reflecting further on these issues.

35. Next I would like to respond to the Committee's remarks about capital spending. In paragraph 31 the report states that capital expenditure is declining. In the current year we expect the outturn for total capital spending to be around £22½ billion. In real terms that is almost exactly the same figure as in 1978-79. Thus, capital spending has not declined but has been maintained - in contrast to the record of the Party opposite who cut capital spending by over 20 per cent in their period of office.

36. Within that total there have been changes between programmes. Certainly less has been spent on building new houses for rent in the public sector - reflecting our policy of wider home ownership. In recent years the emphasis has switched towards

renovation and improvement. Spending by local authorities on this has increased in real terms by nearly 40 per cent since 1978-79:

- we have increased spending on motorways and trunk roads by 30 per cent;
- capital spending by the health service is also up by 30 per cent;
- investment by the water industry, now over £1 billion a year, will increase by 9 per cent in real terms over the next 3 years.

And in the Survey we added an additional £1 billion to the plans for 1987-88. So blanket condemnations of the Government's record on infrastructure are wide of the mark.

37. Finally, the Committee have shown a continuing interest in government departments' running costs and manpower. The running costs arrangements introduced last year have settled down fairly well. The running costs limits set in this year's Estimates are, in general, sticking and there is now firmer and closer control of departments' administrative costs.

38. In introducing the running costs system, we decided that it would be sensible to continue with separate manpower targets for an initial period. These have been an essential part of our strategy for achieving a leaner and more efficient Civil Service. The House will be aware of how successful they have been. Numbers have fallen by more than 130,000 since April 1979. About 80,000 of that reduction results from increased efficiency, improved methods of working, and general streamlining. That is a significant achievement. I should like to take this opportunity to acknowledge the considerable contribution made by individual civil servants in improving their departments' efficiency and in providing better value for money for the taxpayer. Without their help improvements of this magnitude would not have been possible.

39. We have always recognised the difficulty of running two separate controls side by side for any length of time. We did not publish a separate manpower target beyond April 1988; and made it clear, both in last year's public expenditure White paper and this year's, that the need for continuing separate manpower targets beyond that date would be reviewed in the light of experience of the running costs control arrangements.

40. I can now tell the House that because of the encouraging start made by the running costs system, we do not intend to set aggregate targets for manpower after April 1988. We shall, however, continue to take a close interest in manpower during the annual Public Expenditure Survey. The public expenditure White Paper will give each departments' manpower plans for each year of the Survey. Any proposal by a department to go beyond its published manpower plans would have to be agreed with the Treasury before any commitment was undertaken. The overall control will be the one set by the running cost limit. The primary consideration, therefore, in considering extra manpower will be whether the revised manpower plans are consistent with the running costs limits.

41. One advantage of moving to one overall control rather than two is that it will allow individual Civil Service managers greater flexibility to make best use of the resources available to them. I am confident that the new arrangements - which are a combination of manpower plans and the control on running costs - should maintain the momentum of the drive for increased efficiency by government departments, and the downward pressure on numbers.

LOCAL AUTHORITY CAPITAL EXPENDITURE AND RECEIPTS

It has often been argued in the Debates that receipts from sales of assets should not be treated on all fours with other receipts. The Government accepts this, and takes account of the differing impact on demand and monetary conditions of sales of assets in setting fiscal policy. The decision not to allow local authorities to spend immediately all additional capital receipts is fully consistent with this. Those who criticise the Government position, are taking a line which is inconsistent with the earlier argument.

To remove the constraints on the proportion of receipts, both in-year and accumulated, which authorities are allowed to spend would give rise to an increase in public spending and borrowing which would be incompatible with the objectives the Government has set. The existing plans already take credit for the forecast receipts in the current year. As regards accumulated receipts, they have already been scored as reducing borrowing in earlier years. If they are spent now they will add to borrowing. You cannot use the same receipt twice - it scores when it is received and cannot be scored when it is used one or two years later.

Appendix 7

Supplementary note by H M Treasury

At the hearings with both officials and the Chancellor of the Exchequer, Mr Townend argued that the underlying increase in real terms in public expenditure in 1986–87 after correcting for privatisation proceeds and for the effect of the coal strike was greater than the growth of GDP in real terms. The Committee asked for a note on this point.

2. In real terms the change in the planning total was as follows:

	<i>Per cent</i>	
	<i>1985–86</i>	<i>1986–87</i>
Planning total, including privatisation proceeds	– 2.9	2.2
Planning total, excluding privatisation proceeds	– 2.5	3.5

The corresponding figures for general government expenditure which includes debt interest are:

GGE excluding privatisation proceeds	– 0.3	0.8
GGE excluding privatisation proceeds	0.0	2.0

3. At the time of the hearings in November 1985, the Treasury estimated that the impact of the coal strike on the planning total would be £2½ billion in 1984–85 and £1¼ billion in 1985–86. The Treasury now estimate that the figure for 1985–86 would be £¾ billion, principally reflecting the sharp improvement in the finances of British Coal.

4. In his evidence the Chancellor of the Exchequer pointed out that, under a system of cash planning and control, there can be fluctuations in the year to year real terms increases if the GDP deflator moves differently from what was expected at the time the plans were made. For example, the GDP deflator in 1985–86 increased by 6 per cent, against the 5 per cent projected at the time of the 1985 Budget. This change in inflation would have made very little difference to the level of cash spending in that year, the change being reflected in a bigger than expected fall in real terms. Similarly, the GDP deflator for 1986–87 is now expected to rise by 3 per cent against 3¾ per cent in the 1986 Budget, while for large parts of the public sector cash spending in this year will be unaffected.

5. To establish the underlying trend it is necessary to look at the developments over a number of years. Between the years 1983–84 and 1986–87, neither of which was affected by the coal strike and a period during which unanticipated movements in the GDP deflator even out, GGE excluding privatisation proceeds—which is the aggregate giving the best guide to underlying movements—increased by 1¾ per cent a year. Over this period, GDP increased by 2¾ per cent a year in real terms.

GENERAL GOVERNMENT CONSUMPTION

Note by H M Treasury

Table 1.15 of the Autumn Statement gives a forecast of general government consumption in volume terms at constant 1980 prices. This forecast is fully consistent with the path of public expenditure set out in Chapter 2 of the Autumn Statement.

2. General government consumption is current expenditure on goods and services, accounting for about 50 per cent of total general government expenditure. It excludes such items as capital expenditure and transfer payments (eg social security benefits).

3. There are well-known difficulties about converting cash plans into volume figures. It is not easy to find appropriate price indices for every category of general government consumption, and the provisional data in particular is subject to revision. There are additional complications over linking together the CSO's early published estimates for the first half of the calendar year, and the forecast of spending over the financial year as a whole. It is therefore not advisable to put too much weight on the precise half-yearly profiles.

4. In these circumstances the forecast claims to be no more than a guide to broad movements from one year to another. The year-on year changes in table 1.15 show fairly steady growth.

5. Since the figures in table 1.15 are *volume* forecasts, they are not affected by changes in teachers' pay.

FROM: COLIN MOWL
DATE: 13 February 1987

CHANCELLOR

cc Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Sedgwick
Mr Culpin
Mr Ritchie
Dr Clark

*V. Gubbins v. Culpin's
group for m. Culpin's
needs (8
months. Budgets
contributed on
(i) fgs should be
under control
(ii) higher tax
revenues
not*

*reflection of
boom (govt
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hear
the govt
for
1986-87
will be
giving
an
Budget
by.
Mr*

DRAFT PRESS BRIEFING ON PSBR IN JANUARY

I attach the draft press briefing on the PSBR. I am also submitting separately the draft monthly note.

below

2. Starting this month, the press briefing and monthly note are being sent to you a day earlier than usual to allow for the possibility of including a short paragraph of comment in the press notice itself (see the attached minute of 4 February from Mr Cassell and Mr Allan's note of your reply). It was agreed that such a paragraph would only be included in press notices issued before the Budget if there were important special factors we wished to draw attention to. There are no such factors this month and we are not proposing to include a paragraph of comment in the press notice.

3. However, after discussion with Mr Cassell and Mr Culpin, we felt that it would be worth making available to Reuters and AP Dow Jones an official on the record comment on the figures. It is hoped to persuade them to transmit the comment shortly after the figures themselves. The proposed comment is as follows:

"In January the public sector surplus was about £¼ billion smaller than last year. The central Government's own account surplus was over £1 billion smaller, partly reflecting the change in composite rate tax arrangements for building societies. But the local authorities' and public corporations' surplus was about £¼ billion larger. Revenues were much as would have been expected, given that some Corporation Tax payments were brought forward into December.

Over the financial year as a whole, local authorities and public corporations have so far borrowed just over £2 billion less this year than last. But the overall gap between the cumulative PSBR so far this year and last has narrowed slightly."

The main objectives of the comment are firstly to try to play down the cumulative undershoot compared with last year and secondly to make it clear that there is no "news" this month on the tax revenues front.

4. Comments on the draft briefing, including the comment in paragraph 3 above, as early as possible on Monday 16 February would be appreciated. The press notice will be issued at 11.30 on Tuesday 17 February.

Colin Mowl

COLIN MOWL

From: JOHN CLARK
17 February 1987

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Grice
Mr C W Kelly

Mr Mowl
Miss O'Mara
Mrs Butler
Mr Ritchie
Mr Briscoe
Mr Devereux
Mr Pickford
Mr R Evans
Mr Mansell - CSO
Mr Richardson - CSO
Mr Wright B/E
Mr Norgrove - No 10

List B

(distributed at 11.30am, 17 February)

Mr Riley
Mr Cropper
Mr C M Kelly
Mr Ross-Goobey
Mr Tyrie
Mr Ko - IR
Mr B Sexton - C and E

BRIEFING FOR 17 FEBRUARY PSBR PRESS NOTICE

The PSBR figures for January will be published at 11.30am on 17 February. The provisional outturns, together with figures for the first ten months of 1985-86 and 1986-87, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

Table 1:

Borrowing requirement outturns

£ billion

	Apr-Jan 1985-86	Apr-Jan 1986-87	January 1987
Central government on own account	2.8	2.1	<i>DyH</i> -0.7 -3.4
Local authorities	0.5	-0.6	-1.1 -
Public corporations	-0.1	-1.1	-1.0 -0.3
PSBR	3.1	0.4	-2.7 -3.7
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	7.7	6.0	-3.3

Note: Figures may not sum precisely because of rounding.

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

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
Apr	1.9	1.1	0.2	0.9	0.8	0.7	-0.4	-0.2	-0.2	2.4	1.8	0.7
May	3.2	2.4	1.9	0.8	0.8	0.4	-0.4	-0.5	-0.6	3.6	2.7	1.7
Jun	4.5	2.7	3.0	0.6	0.5	-0.1	-0.5	-0.6	-0.8	4.6	2.6	2.2
Jul	5.0	3.6	3.0	0.8	0.8	-0.1	-0.7	-1.3	-1.1	5.1	3.1	1.9
Aug	6.2	4.6	4.2	1.4	0.9	0.2	-0.7	-1.2	-0.8	6.8	4.3	3.6
Sep	6.5	5.1	6.7	1.2	1.1	0.0	-0.2	-0.6	-1.0	7.5	5.6	5.8
Oct	6.7	5.0	6.4	1.0	0.7	-0.3	0.3	-0.4	-0.6	8.0	5.3	5.6
Nov	8.5	6.2	7.2	0.8	0.1	-0.7	0.4	-0.3	-1.0	9.7	6.0	5.5
Dec	7.8	7.3	5.6	1.2	0.4	-0.6	1.3	-0.1	-0.8	10.3	7.6	4.1
Jan	5.7	2.7	2.1	0.9	0.5	-0.6	1.2	-0.1	-1.1	7.8	3.1	0.4
Feb	5.1	2.7		1.3	0.4		1.3	-0.4		7.8	2.7	
Mar	6.6	4.1		2.4	1.7		1.2	-0.0		10.2	5.8	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL

Table 2: PUBLIC SECTOR BORROWING REQUIREMENT – Comparison with the last two years
(Figures in brackets exclude privatisation proceeds)

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
	Apr	1.9	1.1	0.2	0.9	0.8	0.7	-0.4	-0.2	-0.2	2.4 (2.4)	1.8 (1.8)
May	3.2	2.4	1.9	0.8	0.8	0.4	-0.4	-0.5	-0.6	3.6 (3.6)	2.7 (2.9)	1.7 (2.8)
Jun	4.5	2.7	3.0	0.6	0.5	-0.1	-0.5	-0.6	-0.8	4.6 (4.6)	2.6 (3.9)	2.2 (3.3)
Jul	5.0	3.6	3.0	0.8	0.8	-0.1	-0.7	-1.3	-1.1	5.1 (5.4)	3.1 (4.5)	1.9 (3.0)
Aug	6.2	4.6	4.2	1.4	0.9	0.2	-0.7	-1.2	-0.8	6.8 (7.1)	4.3 (5.9)	3.6 (4.7)
Sep	6.5	5.1	6.7	1.2	1.1	0.0	-0.2	-0.6	-1.0	7.5 (7.9)	5.6 (7.3)	5.8 (6.8)
Oct	6.7	5.0	6.4	1.0	0.7	-0.3	0.3	-0.4	-0.6	8.0 (8.5)	5.3 (7.0)	5.6 (6.6)
Nov	8.5	6.2	7.2	0.8	0.1	-0.7	0.4	-0.3	-1.0	9.7 (10.2)	6.0 (7.9)	5.5 (6.8)
Dec	7.8	7.3	5.6	1.2	0.4	-0.6	1.3	-0.1	-0.8	10.3 (12.2)	7.6 (9.9)	4.1 (7.4)
Jan	5.7	2.7	2.1	0.9	0.5	-0.6	1.2	-0.1	-1.1	7.8 (9.9)	3.1 (5.4)	0.4 (3.7)
Feb	5.1	2.7		1.3	0.4		1.3	-0.4		7.8 (9.9)	2.7 (5.0)	
Mar	6.6	4.1		2.4	1.7		1.2	-0.0		10.2 (12.3)	5.8 (8.5)	

Note: Figures may not sum precisely because of rounding.

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1. PSBR in April-January 1986

Line to take

Provisional PSBR for first ten months of 1986-87 shows net borrowing of £0.4 billion, about £2.7 billion lower than for first ten months of 1985-86. Most of the difference between this year and last is local authority and public corporations borrowing, not CG own account.

2. Revisions to outturns April-December 1986

Background

PSBR April-December (now £4.1 billion) revised downwards by £0.4 billion since last PSBR press notice, and by £0.2 billion since 29 January press release on money and banking figures.

Line to take

Figures for December published last month more than usually provisional due to bad weather affecting processing of figures. Main changes since last PSBR press notice:

- LABR down £0.3 billion, owing mainly to reduction of estimated borrowing from private sector following receipt of comprehensive quarterly information. Earlier provisional figures based on a monthly sample.
- PCBR down £0.1 billion, owing mainly to updated information on corporations' transactions with banks.

3. Borrowing in January and 1986-87

Background

The (provisional) PSBR for January is a surplus of £3.7 billion. City forecasts range between net repayment of £1¼ and £3½ billion, with an average of £2¾ billion. Borrowing in January always low, owing in particular to seasonally high receipts of Corporation Tax and Schedule D income tax.

Line to take

January 1987 PSBR lower than average of January of last few years, indicating continuing buoyancy of tax receipts. Corporation tax receipts buoyant as expected, but CGBR(O) lower than January last year.

Rise in central government bank deposits in December unwound in January as expected.

Autumn Statement forecast of 1986-87 PSBR was £7 billion, unchanged from 1986 Budget. January figures confirm that borrowing likely to undershoot, the main reasons being buoyancy of non-oil tax revenues and low borrowing by local authorities and public corporations.

comparison of cumulative figures for 1986-87 so far with last year unlikely to be good guide to size of undershoot. For example, PRT and composite rate tax receipts in the last 2 months likely to be significantly lower than in February - March 1986.

New forecast will be given in forthcoming Budget.

4. Privatisation proceeds in 1986-87

Line to take

No receipts in January. Receipts in first ten months of 1986-87 £3.2 billion. Autumn Statement had privatisation receipts in 1986-87 as a whole of £4¾ billion.

^ BA receipts and Gas debt to come.

5. Tax revenues

Background

Total taxes on incomes, expenditure and capital in 1986-87 forecast at £118 billion in Autumn Statement, compared with £117½ billion in Budget. North Sea revenues were forecast £1½ billion lower than in Budget, non-oil receipts £2 billion higher.

Line to take

So far in financial year, non-oil tax revenues more buoyant than expected at Budget time, mainly as a result of buoyant corporation tax and VAT. These more than offset lower than expected oil revenues.

6. Inland Revenue receiptsBackground

Total Inland Revenue receipts in January were £10.3 billion. Total for first ten months of 1986-87 (£48.7 billion) up 4¾ per cent on same period last year. Budget forecast for growth in whole of 1986-87 over 1985-86 was 1¼ per cent, very low because of drop in oil revenues. No forecast of total Inland Revenue taxes given in Autumn Statement, but stated that oil revenues expected to be £1½ billion lower, and onshore company taxes higher, than in Budget forecast.

Line to take

Receipts in first ten months of 1986-87 up 4¾ per cent on April-January 1985-86. High growth April-January over same period last year (compared with Budget forecast growth for year as a whole) due largely to higher corporation tax and changed pattern of composite rate tax receipts.

7. Customs and Excise receiptsBackground

Customs and Excise receipts in January were £3.2 billion. Total for first ten months of 1986-87 (£34.0 billion) 10 per cent up on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 8¼ per cent. No forecast for Customs and Excise receipts given in Autumn Statement, but stated that VAT expected higher than in Budget forecast.

Line to take

Receipts in first ten months of 1986-87 were £34.0 billion, about 10 per cent up on the same period last year. VAT receipts particularly buoyant.

8. Supply Expenditure

Background

Provisional outturn for supply expenditure in January is £8.6 billion. Total April – January 1986–87 (provisionally £83.2 billion) about 3¼ per cent up on same period last year (£80.7 billion). Excluding advance EC contributions, increase is 3¾ per cent above last year. (No forecast for 1986–87 given in Autumn Statement or FSBR.) Supply has different coverage from planning total (e.g. the latter includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs market borrowing).

Line to take

Provisional estimate £8.6 billion in January. Expenditure in first ten months of 1986–87 about 3¼ per cent higher than over same period last year (3¾ per cent excluding advance EC contributions).

9. Local authorities

Background

Local authorities (provisionally) showed net borrowing close to zero in January. The first ten months of 1986–87 showed a net repayment of about £0.6 billion.

No forecast of LABR in 1986–87 given in Autumn Statement or FSBR.

Line to take

Local authority net borrowing in first ten months of 1986–87 lower than average of last few years. But pattern of local authority borrowing erratic. Too early to be certain how borrowing for 1986–87 as a whole will compare with earlier years. March borrowing always high.

10. Public corporations

Background

Public corporations (provisionally) repaid £0.3 billion in January, and repaid £1.1 billion in

first ten months of 1986-87.

No forecast of PCBR in 1986-87 given in Autumn Statement or FSBR.

Line to take

Public corporations' borrowing April-January lower than average of last few years. But pattern always erratic - too early to say how borrowing for 1986-87 as a whole will compare with earlier years.

John Clark (270-5030)
PSF Division, HM Treasury

CONFIDENTIAL

FROM: F CASSELL
4 February 1987

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Scholar
- Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Mowl
Mr Pickford
Mr Ross Goobey

RELEASING THE MONTHLY PSBR NUMBER

The monthly PSBR press notice, introduced in 1983, deliberately eschews comment. It just gives the figures. There are in fact a lot of figures in it, reflecting its historical derivation from the publication of Exchequer accounts in the London Gazette. But there is one figure that the market seizes on, and the brokers (etc) go to great lengths to make sure that they get it immediately on the dot of 11.30 on the day of release. They also seek to get in first with telephone calls to IDT to get the Treasury's gloss on the numbers. Since the number of gilts market-makers far exceeds the number of lines to IDT it is inevitable that this gloss will be available to some earlier than others.

2. This last point was picked up by Lex, in a piece (attached) to which Robert Culpin drew your attention when the December PSBR was published. I do not think we need take that particular complaint too seriously (it seems to reflect the grievance of one particular firm), but it does highlight a problem that we have been aware of for some time.

3. This is that the printed press release, which we pore over carefully each month - and which fulfils many essential roles - is an archaic way of getting information to the financial markets, who are the immediate audience for it.

64/2

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4. The opening part of the press release is read over the telephone at 11.30 by IDT to Reuters, who then get the key figure on their screen within a couple of minutes. But, as last month, the bald figures may not tell quite the right story.

5. We have therefore been considering with the CSO - who are jointly responsible with the Treasury for the press release - whether we should include, when warranted, a short paragraph noting any special factors we have identified that affect the month's figures. An example of what this might have looked like last month is attached, with the new paragraph (on the first page) sidelined. We would then aim to get this paragraph on to the screens with the flash figure. (We are negotiating with Reuters for a facility whereby the PSBR news could be inputted by the Treasury itself, but it may be some time before this is available.)

6. The comments would necessarily be very brief, and they would have to be kept strictly factual (which may not always be easy given our own lack of knowledge about anything much beyond the borrowing figure itself). They would bring the PSBR press notice more in line with those for the trade figures and the money numbers (though here again the comment is extremely sparse).

7. We would obviously need to clear such a paragraph with you each month. (At the moment we do not clear the press release itself with you, given its standard form, but do clear the briefing to be given to the press offices.) With the move to an 11.30 release time, the time available for clearance is already desperately short. If you do approve of this change, I will bring forward my own monthly meeting on the PSBR to enable the drafts to go to you 24 hours earlier than at present (ie two evenings before the release date), though this will mean that our analysis at that stage may not be complete and also that the figures could change before publication.

8. The case for this change is that it would make any official knowledge of special factors available to all "readers" at

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the same time, and not simply to those who happen to be first in getting through to the Treasury or CSO press office.

9. I should like to be able to say to you that if we made this change IDT would cease talking to the City scribblers about the numbers. But I have been persuaded that this would not be realistic. We will never be able to say very much in the press release itself (particularly with the CSO casting a watchful eye over what is said) and, in any event, IDT cannot in practice draw a distinction between Tim Congden ringing up in his broking role or as a financial journalist. And, of course, so much of the "comment" by financial journalists themselves nowadays simply reports what the City analysts are saying.

Conclusion

10. Treasury officials, and the CSO, recommend including, when warranted, a short paragraph in future PSBR releases drawing attention to any known special factors affecting the numbers. We would also like to take steps to get such a paragraph on to the screens immediately after the number itself is flashed up (though this may not technically be possible yet).

11. Would you be content with this? And, if so, would you wish it to start with the release of the January figures on Tuesday 17 February - provided that there is some factual comment that is worth making then?. If there is no substantial comment to make on those figures, we should stick to the present familiar format until after the Budget. (The next "natural" date for starting would be in May, when the first figures for 1987-88 are published).



F CASSELL



FROM: A C S ALLAN
DATE: 6 February 1987

MR CASSELL

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Scholar
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Mowl
Mr Pickford
Mr Ross Goobey

RELEASING THE MONTHLY PSBR NUMBER

The Chancellor was grateful for your minute of 4 February. He feels that what you are proposing is clearly a sensible move.

ACSA
A C S ALLAN

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1 Alex
2 PufFROM: P D P BARNES
DATE: 16 February 1987

PS/CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Segwick
Mr Culpin
Mr Mowl
Mr Richie
Dr Clarke

DRAFT PRESS BRIEFING ON PSBR IN JANUARY

The Economic Secretary has seen Mr Mowl's submission to the Chancellor of 13 February.

2. The Economic Secretary has commented that it is surely in vain hope that a £4¼ billion PSBR for 1986 - 87 will not be newsworthy. He wonders whether we ought not to prepare ourselves for this in more than a technical way.

PB

P D P BARNES
Private Secretary

CONFIDENTIAL AND PERSONAL

FROM: ROBERT CULPIN
DATE: 25 FEBRUARY 1987

CHANCELLOR

12/2

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz
Miss O'Mara
Mr Pickford
Mr Ross Goobey

TEENAGE SCRIBBLERS

I offer you this fact for the repertoire: at the time of the last Budget, not a single one of the City pundits monitored by EB forecast a PSBR for 1986-87 as low as the £7 billion in the FSBR. Their range was £7½-9½ billion.

*Useful.
Who was @ 79½ bn?
Pd? me.*

ROBERT CULPIN

Nigel
Pse thankFROM: R J DEVEREUX
DATE: 2 March 1987

- Much as expected, with
the behaviour of VAT
(para 2) the main point
of interest. B.J.M.
1. MR MOWLE ✓
 2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Peretz
Mr Scholar
Mr Watts
Mr Ritchie

Thali

CGBR(O) & CGBR IN FEBRUARY

1. The provisional outturn for the CGBR(O) in February is £0.2 billion, £0.1 billion lower than forecast last month. Slightly higher Inland Revenue receipts and national insurance contributions were partly offset by a shortfall on Customs and Excise receipts due mainly to lower VAT (see Table 2).

2. Customs and Excise are now taking the view that the particular buoyancy of VAT in September and October, which lead us to revise up the VAT forecast after the Autumn Statement, was probably attributable to the Keith reforms, and in particular, the introduction of a default surcharge from 1 October. Our current VAT forecast for 1986-87 is now much the same as the Autumn Statement forecast, which was itself $\frac{1}{4}$ billion above the Budget forecast. Receipts of tobacco duty in February were high, suggesting significant forestalling. Most of this forestalling was anticipated in last month's forecast which was completed after the bulk of February's receipts were known. The estimate of the CGBR(O) outturn is subject to revision before publication at 11.30am on Budget day (17 March).

3. In the first 11 months of 1986-87 the CGBR(O) was £4.1 billion, £1.8 billion below the Budget profile (see Table 1). The main factors are as follows:

- oil taxes and royalties are lower than the Budget profile because of lower oil prices and because of the repayments of Advance Petroleum Revenue Tax announced in the Autumn Statement (all of these repayments were made by the end of February).

- among non-oil taxes VAT and corporation tax more than account for the excess over Budget profile.
- about £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 to 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high.
- the cumulative shortfall on supply and other expenditure is difficult to interpret because we do not yet have a separate estimate for supply expenditure.

Table 1

CGBR(O) APRIL-FEBRUARY* - £ billion

(receipts -, outlays +)

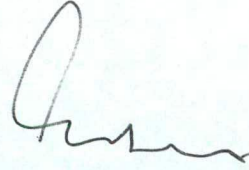
	Budget Profile	Outturn	Difference between outturn and Budget Profile	
			£b	%**
<u>CG Receipts</u>				
Non-oil taxes	-88.1	-90.9	-2.9	-3
Oil taxes and royalties	-4.8	-3.4	+1.5	+30
NIC's	-19.8	-20.2	-0.5	-2
Privatisation proceeds	-3.7	-3.7	-	+1
Other receipts	-1.3	-1.5	-0.2	-14
<u>CG Outlays</u>				
Supply and other expenditure	113.4	113.3	-0.2	0
Debt interest (net expenditure)	8.3	8.7	+0.4	+5
CGBR(O)	4.1	2.3	-1.8	-

* figures may not add due to rounding

** a dash indicates that percentage changes are not meaningful

4. On-lending to local authorities in February totalled £0.2 billion. This was offset by a £0.2 billion repayment of on-lending by public corporations. The CGBR in February was therefore £0.3 billion, bringing the total since 1 April 1986 to £6.3 billion.

5. The provisional outturn for the PSBR in February will be available on Tuesday next week (10 March).

A handwritten signature in black ink, appearing to be 'R J Devereux', written in a cursive style.

R J DEVEREUX

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Table 2

CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	February 1987			April 1986-February 1987			April 1985 - February 1986
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Inland Revenue	+ 4.0	+ 4.0	+ 0.1	+ 52.8	+ 52.1	+ 0.7	+ 50.9
Customs and Excise	+ 4.0	+ 4.0	- 0.1	+ 38.0	+ 37.2	+ 0.8	+ 34.5
Other own account	- 8.2	- 8.3	+ 0.1	- 93.1	- 93.4	+ 0.3	- 88.1
CGBR (O)	- 0.2	- 0.3	+ 0.1	- 2.3	- 4.1	+ 1.8	- 2.7
On- lending:							
- LAs	- 0.2	- 0.2	- 0.1	- 4.1	- 5.0	+ 0.9	- 3.9
- PCs	+ 0.2	+ 0.1	-	+ 0.1	+ 0.2	- 0.1	- 1.0
CGBR	- 0.3	- 0.3	-	- 6.3	- 9.0	+ 2.7	- 7.6

+ indicates a net receipt, or difference which reduces the CGBR.

- indicates a net payment, or difference which increases the CGBR.

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FROM: COLIN MOWL
DATE: 13 March 1987

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Culpin
Mr Ritchie
Dr Clark

Handwritten notes:
Thanks. A few
changes (some given. 5/2)
Have the sports before this
made sense?
2. X is a good
m-l-bus for
St. Culpin
to distribute the cases.
NY.

DRAFT PRESS BRIEFING ON PSBR IN FEBRUARY

I attach the draft press briefing on the PSBR in February. I am also submitting separately the draft monthly note. — behind

2. As last month we plan to issue an on the record statement to Reuters. The proposed statement, which has been discussed with IDT, is as follows:

"The PSBR in February was similar to February last year. Influences reducing borrowing were: £0.4 billion of proceeds from privatising British Airways, and Budget forestalling which increased Customs and Excise receipts by £0.3 billion compared with February 1986.

Over the first 11 months of the financial year the PSBR is about £2½ billion less than last year, mainly because of lower borrowing by local authorities and public corporations".

3. Comments on the Reuters statement and draft press briefing on Monday 16 March would be appreciated. The press notice will be issued at 11.30 on Tuesday 17 March.

Colin Mowl

COLIN MOWL

Ch
OK? (a couple
of points a press briefing,
though in practice will
be swamped by Budget)

AA

CONFIDENTIAL AND PERSONAL
(DRAFT)

From: JOHN CLARK
17 March 1987

MR CULPIN - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Peretz
Mr Sedgwick
Mr Grice
Mr C W Kelly

Mr Mowl
Miss O'Mara
Mrs Butler
Mr Ritchie
Mr Briscoe
Mr Devereux
Mr Pickford
Mr R Evans
Mr Mansell - CSO
Mr Richardson - CSO
Mr Wright B/E
Mr Norgrove - No 10

List B

(distributed at 11.30am, 17 March)

Mr Riley
Mr Cropper
Mr C M Kelly
Mr Ross-Goobey
Mr Tyrie
Mr Ko - IR
Mr B Sexton - C and E

BRIEFING FOR 17 MARCH PSBR PRESS NOTICE

The PSBR figures for February will be published at 11.30am on 17 March. The provisional outturns, together with figures for the first eleven months of 1985-86 and 1986-87, are shown in Table 1. Cumulative figures for the PSBR and its components for 1984-85 and 1985-86 are shown in Table 2 overleaf.

Table 1: Borrowing requirement outturns

£ billion

	<u>Apr-Feb 1985-86</u>	<u>Apr-Feb 1986-87</u>	<u>February 1987</u>
Central government on own account	2.7	2.3	0.1
Local authorities	0.4	-0.7	-0.1
Public corporations	-0.4	-1.4	-0.4
PSBR	2.7	0.1	-0.3
Memo: CGBR (including borrowing for on-lending to LAs and PCs)	7.6	6.3	0.2

Note: Figures may not sum precisely because of rounding.

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

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87	1984-85	1985-86	1986-87
Apr	1.9	1.1	0.2	0.9	0.8	0.7	-0.4	-0.2	-0.2	2.4	1.8	0.7
May	3.2	2.4	1.9	0.8	0.8	0.4	-0.4	-0.5	-0.6	3.6	2.7	1.7
Jun	4.5	2.7	3.0	0.6	0.5	-0.1	-0.5	-0.6	-0.8	4.6	2.6	2.2
Jul	5.0	3.6	3.0	0.8	0.8	-0.1	-0.7	-1.3	-1.1	5.1	3.1	1.8
Aug	6.2	4.6	4.2	1.4	0.9	0.2	-0.7	-1.2	-0.8	6.8	4.3	3.6
Sep	6.5	5.1	6.7	1.2	1.1	0.0	-0.2	-0.6	-1.0	7.5	5.6	5.7
Oct	6.7	5.0	6.4	1.0	0.7	-0.3	0.3	-0.4	-0.6	8.0	5.3	5.5
Nov	8.5	6.2	7.2	0.8	0.1	-0.7	0.4	-0.3	-1.0	9.7	6.0	5.5
Dec	7.8	7.3	5.6	1.2	0.4	-0.6	1.3	-0.1	-0.8	10.3	7.6	4.1
Jan	5.7	2.7	2.1	0.9	0.5	-0.6	1.2	-0.1	-1.1	7.8	3.1	0.5
Feb	5.1	2.7	2.3	1.3	0.4	-0.7	1.3	-0.4	-1.4	7.8	2.7	0.1
Mar	6.6	4.1		2.4	1.7		1.2	-0.0		10.2	5.8	

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

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(DRAFT)

Summary of line to take

The PSBR in February was similar to February last year. Influences reducing borrowing were £0.4 billion of proceeds from privatising British Airways, and Budget forestalling which increased Customs and Excise receipts by £0.3 billion compared with February 1986.

Over the first eleven months of the financial year the PSBR is about £2½ billion less than last year, mainly because of lower borrowing by local authorities and public corporations.

1. February outturn known when Budget judgment formed?

Line to take

~~February outturn does not affect Budget judgement.~~

?? ✓ odd ✓ (x memo book) with 2!

2. February outturn taken into account in FSBR estimate of PSBR outturn ?

Line to take

Yes.

Feet the "Budget judgement fully considered into Feb outturn"
or "Feb outturn taken fully into account when producing Budget judgement"

3. PSBR in April-February 1986-87

Line to take

Provisional PSBR for first eleven months of 1986-87 shows net borrowing of £0.1 billion, about £2.6 billion lower than for first eleven months of 1985-86. Most of the difference between this year and last is ⁱⁿ local authority and public corporations borrowing, ~~not central government own account.~~ *although central gov own account also down.*

4. Borrowing in February

Background

The (provisional) PSBR for February is a surplus of £0.3 billion. City forecasts range between net repayment of £1.0 billion to net borrowing of £1.0 billion, with an average

close to zero. Borrowing in February normally low - average of last three years close to zero.

Line to take

In February the PSBR was in line with the average for February of earlier years, and in particular was very close to the February 1986 outturn (see summary above).

5. Borrowing in 1986-87

Line to take

Wait for Budget speech and FSBR which will give estimated outturn.

(and this year likely to be higher than usual.)
Borrowing in March usually high, Expenditure always high in closing weeks (end-year surge) . Also local authority borrowing in March has always been high.

Always this
[IF PRESSED] Special factors increasing borrowing in March include:

- ~~This year~~, expenditure on Rover of about £¾ billion ~~will increase expenditure in March.~~
- PRT likely to be significantly lower than March last year.
- ~~Privatisation proceeds in March will be higher than last year (proceeds of £¾ billion, mainly British Gas) compared with £0.4 billion last March (Cable and Wireless).~~

6. Privatisation proceeds in 1986-87

Line to take

Receipts in February £0.4 billion from sale of British Airways. Receipts in first eleven months of 1986-87 £3.7 billion. Figure for year as a whole will be given in today's Budget.

7. Tax revenues

Line to take

So far in financial year, non-oil tax revenues more buoyant than expected in 1986 Budget, mainly as a result of buoyant corporation tax, VAT and stamp duty. These more than offset lower than expected oil revenues.

Buoyancy not reflection of excessive consumer boom. For corporation tax, 1986-87 receipts reflect profits earned in 1985 and earlier years. Buoyancy of stamp duty receipts mainly reflects stock market activity and prices. VAT buoyancy reflects a number of factors, not just total level of consumer spending, ~~Other factors~~ include change in composition of spending towards standard-rated VAT goods and services.

of K&M reforms.

Further forecast given in today's Budget (FSBR).

↑ effect
profits

8. Inland Revenue receipts

Background

Total Inland Revenue receipts in February were £4.0 billion. Total for first eleven months of 1986-87 (£52.8 billion) up 3½ per cent on same period last year. Budget forecast for growth in whole of 1986-87 over 1985-86 was 1¼ per cent, very low because of drop in oil revenues. Further forecast given in today's Budget (FSBR).

Line to take

Receipts in first eleven months of 1986-87 up 3½ per cent on April-February 1985-86. High growth April-February over same period last year (compared with Budget forecast growth for year as a whole) due largely to higher corporation tax and changed pattern of composite rate tax receipts.

Further forecast given in today's Budget (FSBR).

9. Customs and Excise receipts

Background

Customs and Excise receipts in February were £4.0 billion. Total for first eleven months of

1986-87 (£38.0 billion) 10¼ per cent up on same period last year. Budget forecast for 1986-87 growth on 1985-86 was 8¼ per cent. No forecast for Customs and Excise receipts given in Autumn Statement, but stated that VAT expected higher than in Budget forecast.

X | Duties on tobacco, wines and spirits are assessed when traders remove them from bonded warehouses and paid about a month later. Significant removal from bond can occur before Budget day if traders anticipate a rise in the rate of duties. (This is known as forestalling). There are restrictions on the extent of forestalling in the six weeks prior to the Budget. However, it seems that this year traders have forestalled even earlier (in January) with the result that Customs and Excise receipts in February were £0.3 billion higher than in February 1986.

Line to take

Receipts in first eleven months of 1986-87 were £38.0 billion, about 10¼ per cent up on the same period last year. VAT receipts particularly buoyant.

Effects of earlier forestalling increased receipts in February by £0.3 billion compared with February 1986.

10. Supply Expenditure

Background

Provisional outturn for supply expenditure in February is £8.3 billion. Total April - February 1986-87 (provisionally £91.2 billion) 3 per cent up on same period last year (£88.6 billion). Excluding advance EC contributions, increase is 3½ per cent above last year. (No forecast for 1986-87 given in Autumn Statement or FSBR.) Supply has different coverage from planning total (e.g. the latter includes privatisation proceeds, LA expenditure rather than CG grants to LAs, and PCs market borrowing).

Line to take

Provisional estimate £8.3 billion in February. Expenditure in first eleven months of 1986-87 3 per cent higher than over same period last year (3½ per cent excluding advance EC contributions).

11. Local authorities

Background

Local authorities (provisionally) showed a net repayment of £0.1 billion in February. The first eleven months of 1986-87 showed a net repayment of about £0.7 billion.

Forecast of LABR in 1986-87 to be given in today's FSBR.

Line to take

Local authority net borrowing in first eleven months of 1986-87 lower than average of last few years, suggesting that pattern of borrowing may be undergoing a change. Borrowing in March has always been high.

12. Public corporations

Background

Public corporations (provisionally) repaid £0.4 billion in February, and repaid £1.4 billion in first eleven months of 1986-87.

Forecast of PCBR in 1986-87 to be given in today's FSBR.

Line to take

Public corporations' borrowing April-February lower than average of last few years.

Public corporations as a whole have also benefitted from the lower average level of interest rates which have prevailed in 1986-87.

John Clark (270-5030)
PSF Division, HM Treasury

CONFIDENTIAL AND PERSONAL

FROM: COLIN MOWL
DATE: 13 March 1987

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Ritchie
Dr Clark

*2 small
J. K.*

MONTHLY NOTE ON THE PSBR

I attach the draft monthly note.

2. Given the closeness to the Budget the note is backward looking only. Mr Sedgwick's minute of 10 March (The PSBR In 1986-87 And 1987-88) gave our assessment of the prospects for March and 1986-87 as a whole.

3. Comments on the draft note on Monday would be appreciated. The note is due to be given wider circulation on Monday evening.

Colin Mowl

COLIN MOWL

PUBLIC SECTOR BORROWING

Summary

- The PSBR for February is provisionally estimated as a surplus of £0.3 billion. Last month's forecast was for borrowing of £0.4 billion, the difference being due mainly to lower than forecast borrowing by local authorities and public corporations. City forecasts range from a surplus of £1 billion to a deficit of £1 billion, with an average close to zero.
- Special factors reducing borrowing in February were privatisation proceeds (from sale of British Airways) and forestalling of tobacco duties.
- Borrowing in April-February 1986-87 was £0.1 billion. This is £4.2 billion below the Budget profile (Chart 1). Borrowing by all three sectors is running below profile. The PSBR was £2.6 billion lower than in April-February 1985-86 (Chart 2).
- A profile for the coming months will be produced after the Budget.

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

Chart 1 : Comparisons with Budget profiles for 1986-87

£ billion cumulative

— = Estimated outturn in 1986-87
 = Budget profile

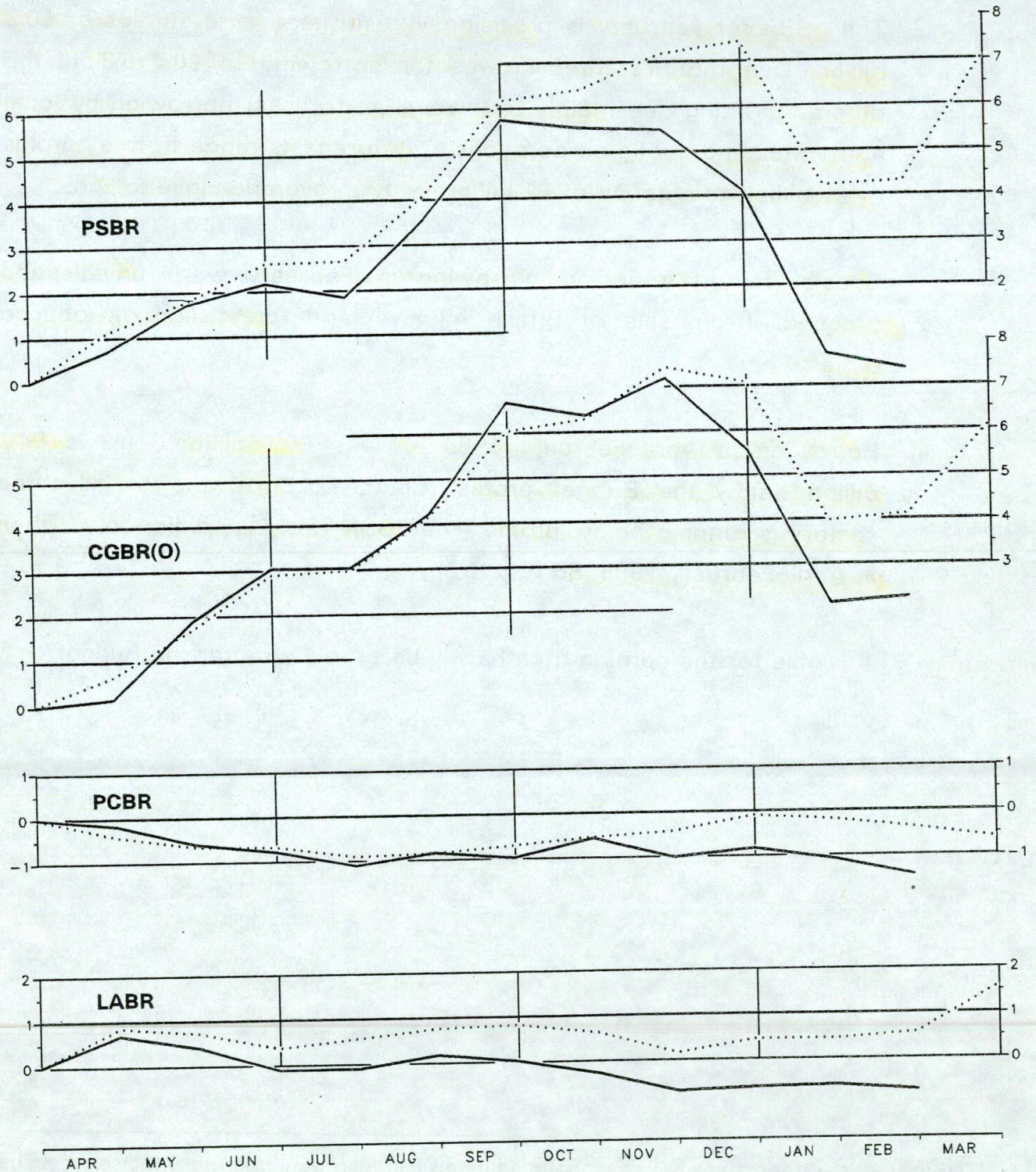
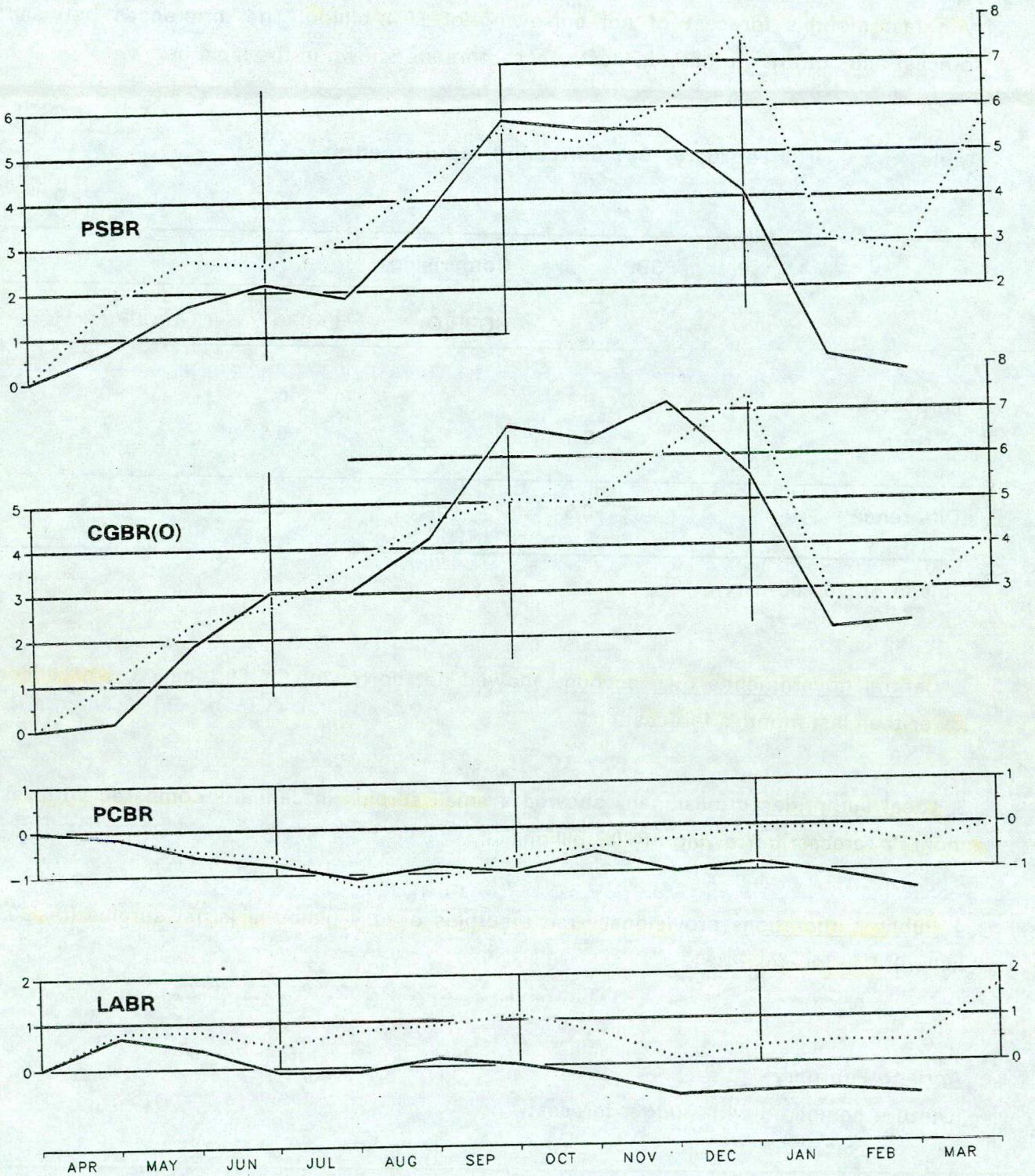


Chart 2: Comparisons with last year's outturns

£ billion cumulative

— = Estimated outturn in 1986-87
 = 1985-86 outturn



Borrowing in February

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in February is a surplus of £0.3 billion, compared with last month's forecast of net borrowing of £0.4 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

Table 1: February 1987 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.4	0.3	0.2	-0.1
Outturn	-0.3	0.1	-0.1	-0.4
Difference	-0.8	-0.1	-0.3	-0.3

*made on 16 February

2. Central government's own account showed net borrowing of £0.1 billion, £0.1 billion lower than last month's forecast.

3. Local authorities provisionally showed a small surplus in January, compared with last month's forecast borrowing of £0.2 billion.

4. Public corporations provisionally ran a surplus of £0.4 billion, a larger surplus (by £0.3 billion) than forecast.

April to February

(Outturn compared with Budget forecast)

Table 2: Total April-February borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	4.3	4.1	0.6	-0.4
Outturn	0.1	2.3	-0.7	-1.4
Difference	-4.2	-1.9	-1.3	-1.1

5. The cumulative PSBR for the first eleven months of 1986-87 was £0.1 billion. This is £4.2 billion below the Budget profile (see Chart 1 and Table 2) and £2.6 billion lower than in April-February 1985-86 (Chart 2). Borrowing by all three sectors is below profile.

6. Cumulative borrowing in April to February on central government's own account was £1.9 billion below the Budget profile. The table below shows our present view of differences on individual components.

Table 3: CGBR(O) April-February: Comparison with Budget profile

£billion (- indicates lower borrowing)

Non-oil taxes	-2.9
Oil taxes and Royalties	+1.4
National Insurance Contributions	-0.5
Net debt interest	+0.4
Supply (excluding advance EC contributions)	-0.1
Other (including departmental balances)	-0.2
Net effect on CGBR(O)	-1.9

- X
- Among non-oil taxes, ~~VAT~~ and Corporation Tax ^{VAT} more than account for the excess over the Budget profile (see paragraph 7)
 - Oil taxes and royalties are lower than the Budget profile because of lower oil prices and because of the repayments of APRT announced in the Autumn Statement (all of these repayments were made by the end of February).
 - About £0.2 billion of the additional National Insurance contributions represents receipts slipping from 1985-86 into 1986-87, and another £0.2 billion is the result of the Budget forecast of statutory sick pay, netted off contributions, being too high
 - Within Other components, higher net contributions to the EEC are more than offset by unidentified increases in departmental balances with the Paymaster General's Office. These changes may imply that the recorded outturn for supply expenditure is too high.
 - Net debt interest is higher than forecast, mainly due to lower interest receipts.

X

7. Tables 4A and 4B on Consolidated Fund Revenues compares revenues as far with the same period in 1985 as well as with the Budget profile, in cash and percentage terms respectively. They show that the increases in ~~VAT~~ and Corporation Tax ^{VAT} have been much greater than expected at Budget time. Corporation tax in the eleven months to February was 33 per cent up on the same period in 1985-86 and VAT receipts 11 per cent higher.

8. For the year to February, total receipts of VAT were £0.9 billion higher than the Budget profile. However, £0.5 billion of this overshoot is accounted for by two months, September and October. This may indicate that the Keith administrative changes, and in particular the introduction of a default surcharge from 1 October, may have had a bigger once-for-all impact on VAT receipts (through accelerating payments) than earlier expected. The evidence for this is, though, entirely circumstantial.

9. Local authorities had a surplus of £0.7 billion in April-February, compared with forecast borrowing of £0.6 billion in the Budget profile. Data on local authorities' spending and income is available for the first half of the financial year only, and is not comprehensive.

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CONSOLIDATED FUND REVENUES - £bn changes on year earlier

	FORECAST FOR 1986-87			APRIL-FEBRUARY 1986-87	
	(i) FSBR(a)	(ii) Autumn Statement IAF (b)	(iii) Latest Forecast	(iv) FSBR	(v) Outturn
1. Total Inland Revenue	½	-	1½	1	2
<u>of which:</u> Income Tax	3	3	3	3	3
Corporation Tax (c)	1½	2	3	1½	3
North Sea taxes (d)	-4½	-5½	-5½	-3½	-4½
Other (Stamp Duties and Capital Taxes)	½	½	1	½	½
2. Customs and Excise	3	3½	4	2½	3½
<u>of which:</u> VAT	1½	2	2	1	2
Specific Duties	1½	1	1½	1½	1½
Other (e)	½	½	½	½	-
3. Vehicle Excise Duty	-	-	-	-	-
4. Asset Sales	2	2	1½	1½	1½
5. Other Consolidated Fund Revenue*	-2½	-3	-2	-2½	-2
6. Timing Adjustment (f)	-	-	-	-	-½
7. TOTAL CONSOLIDATED FUND REVENUE	3	2½	5	3	4½
Memorandum Items:					
Non North Sea Taxes	8½	9	10½	7½	10
North Sea Oil Taxes and Foyalties	-6	-7½	-6½	-4½	-6

* This includes oil royalties (significantly different from 1985-86), also EC refunds, coinage receipts, and CFERs (all significantly different from 1985-86 for purely accounting reasons, having no effect on the CGBR(0)). Thus comparisons with 1985-86 will be of little value

(a) using 1985-86 outturn as estimated in 1986 FSBR

(b) using 1985-86 outturn as estimated in 1986 Autumn Statement

(c) Payments of PRT, advance PRT and North Sea corporation tax but excluding royalties

(d) Includes onshore and North Sea ACT

(e) Includes difference between receipts and payments to Consolidated Fund for April to February

(f) Reflects privatisation proceeds paid initially to Paymaster General and then to Consolidated Fund

SECRET

CONSOLIDATED FUND REVENUES - per cent changes on year earlier

	FORECAST FOR 1986-87			APRIL-FEBRUARY 1986-87	
	(i) FSBR(a)	(ii) Autumn Statement IAF (b)	(iii) Latest Forecast	(iv) FSBR	(v) Outturn
1. Total Inland Revenue	1½	-	2½	2½	3½
<u>of which:</u> Income Tax	8½	8	9	9	9
Corporation Tax (c)	14½	22½	32½	15	33
North Sea taxes (d)	-52½	-67	-65½	-46	-64
Other (Stamp Duties and Capital Taxes)	9	22½	27	10½	25½
2. Customs and Excise	8½	9	10	8	10½
<u>of which:</u> VAT	7½	10½	11	6	11
Specific Duties	9½	8	9	9½	10
Other (e)	8	10	8½	11½	8
3. Vehicle Excise Duty	3	1	3½	3½	3½
4. Asset Sales	90	75½	62	62½	61
5. Other Consolidated Fund Revenue*	-31½	-38½	-25½	-33	-27
6. Timing Adjustment (f)	-	100	64	100	-1295
7. TOTAL CONSOLIDATED FUND REVENUE	2½	2½	4½	3	4½
Memorandum Items:					
Non North Sea Taxes	10	10½	12½	9	12½
North Sea Oil Taxes and Royalties	-54½	-68	-63½	-47½	-63½

* This includes oil royalties (significantly different from 1985-86), also EC refunds, coinage receipts, and CFERs (all significantly different from 1985-86 for purely accounting reasons, having no effect on the CGBR(0)). Thus comparisons with 1985-86 will be of little value

(a) using 1985-86 outturn as estimated in 1986 FSBR

(b) using 1985-86 outturn as estimated in 1986 Autumn Statement

(c) Payments of PRT, advance PRT and North Sea corporation tax but excluding royalties

(d) Includes onshore and North Sea ACT

(e) Includes difference between receipts and payments to Consolidated Fund for April to February

(f) Reflects privatisation proceeds paid initially to Paymaster General and then to Consolidated Fund

10. Public corporations had a surplus of £1.4 billion in April-February, a higher surplus (by £1.1 billion) than in the Budget profile. The limited information available suggests that, for the corporations as a whole, lower than expected borrowing partly reflects lower than expected capital spending. There also appears to have been a much larger than normal boost to cash flow arising from favourable developments in public corporations' net trade credit position, partly due to delayed receipt from 1985-86 falling into the early months of 1986-87.

Table 5: Latest monthly profiles
(1986 Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.0	<i>0.7</i>	1.7	<i>1.0</i>	-0.3	<i>-0.1</i>	-0.4	<i>-0.2</i>
Jun	0.5	<i>0.8</i>	1.2	<i>1.2</i>	-0.5	<i>-0.3</i>	-0.2	<i>-</i>
Jul	-0.3	<i>-</i>	-	<i>0.1</i>	-	<i>0.2</i>	-0.3	<i>-0.2</i>
Aug	1.7	<i>1.4</i>	1.2	<i>1.2</i>	0.3	<i>0.2</i>	0.3	<i>0.1</i>
Sep	2.2	<i>2.1</i>	2.5	<i>1.9</i>	-0.1	<i>0.1</i>	-0.1	<i>0.2</i>
Oct	-0.2	<i>0.2</i>	-0.3	<i>0.3</i>	-0.3	<i>-0.2</i>	0.4	<i>0.2</i>
Nov	-0.1	<i>0.8</i>	0.8	<i>1.1</i>	-0.4	<i>-0.5</i>	-0.4	<i>0.1</i>
Dec	-1.4	<i>0.3</i>	-1.6	<i>-0.4</i>	0.1	<i>0.3</i>	0.2	<i>0.3</i>
Jan	-3.7	<i>-3.2</i>	-3.4	<i>-3.1</i>	-	<i>-</i>	-0.3	<i>-0.1</i>
Feb	-0.3	<i>0.1</i>	0.1	<i>0.1</i>	-0.1	<i>0.1</i>	-0.4	<i>-0.2</i>
Cumulative								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.7	<i>1.8</i>	1.9	<i>1.7</i>	0.4	<i>0.7</i>	-0.6	<i>-0.6</i>
Jun	2.2	<i>2.6</i>	3.0	<i>2.9</i>	-0.1	<i>0.4</i>	-0.8	<i>-0.7</i>
Jul	1.8	<i>2.7</i>	3.0	<i>3.0</i>	-0.1	<i>0.6</i>	-1.1	<i>-0.9</i>
Aug	3.6	<i>4.1</i>	4.2	<i>4.2</i>	0.2	<i>0.8</i>	-0.8	<i>-0.8</i>
Sep	5.7	<i>6.2</i>	6.7	<i>6.0</i>	-	<i>0.8</i>	-1.0	<i>-0.7</i>
Oct	5.5	<i>6.4</i>	6.4	<i>6.3</i>	-0.3	<i>0.6</i>	-0.6	<i>-0.5</i>
Nov	5.5	<i>7.2</i>	7.2	<i>7.4</i>	-0.7	<i>0.2</i>	-1.0	<i>-0.4</i>
Dec	4.1	<i>7.4</i>	5.6	<i>7.1</i>	-0.6	<i>0.5</i>	-0.8	<i>-0.1</i>
Jan	0.5	<i>4.2</i>	2.1	<i>4.0</i>	-0.6	<i>0.4</i>	-1.1	<i>-0.2</i>
Feb	0.1	<i>4.3</i>	2.3	<i>4.1</i>	-0.7	<i>0.6</i>	-1.4	<i>-0.4</i>

CONFIDENTIAL AND PERSONAL

Table 6: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile

£ billion

	1985-86		1986-87		Differences from	
	Outturn	Budget profile	Latest update ⁽¹⁾	1985-86 outturn	Budget profile	
	1	2	3	3-1	3-2	
Apr	1.8	1.1	0.7	-1.1	-0.4	
May	1.0	0.7	1.0	-	0.3	
Jun	-0.1	0.8	0.5	0.6	-0.4	
Q2	2.6	2.6	2.2	-0.4	-0.5	
Jul	0.5	-	-0.3	-0.9	-0.4	
Aug	1.2	1.4	1.7	0.5	0.3	
Sep	1.2	2.1	2.2	1.0	0.1	
Q3	2.9	3.6	3.6	0.6	-	
Oct	-0.3	0.2	-0.2	0.1	-0.4	
Nov	0.7	0.8	-0.1	-0.8	-0.8	
Dec	1.7	0.3	-1.4	-3.0	-1.6	
Q4	2.1	1.3	-1.6	-3.7	-2.9	
Jan	-4.5	-3.2	-3.7	0.8	-0.4	
Feb	-0.4	0.1	-0.3	0.1	-0.4	
Cumulative						
Apr	1.8	1.1	0.7	-1.1	-0.4	
May	2.7	1.8	1.7	-1.0	-0.1	
Jun	2.6	2.6	2.2	-0.4	-0.5	
Jul	3.1	2.7	1.8	-1.3	-0.8	
Aug	4.3	4.1	3.6	-0.8	-0.5	
Sep	5.6	6.2	5.7	0.2	-0.4	
Oct	5.3	6.4	5.5	0.3	-0.8	
Nov	6.0	7.2	5.5	-0.5	-1.7	
Dec	7.6	7.4	4.1	-3.5	-3.3	
Jan	3.1	4.2	0.5	-2.7	-3.8	
Feb	2.7	4.3	0.1	-2.6	-4.2	

Table 7: Central government transactions – February outturn

£ billion

	February	
	forecast	outturn ⁽¹⁾
Receipts		
<i>Consolidated Fund</i>		
Inland Revenue	4.0	4.0
Customs and Excise	4.0	4.0
Other ⁽²⁾	1.5	0.8
<i>National Loans Fund</i>		
Interest etc. receipts	0.4	0.5
Total Receipts	10.0	9.2
Expenditure		
<i>Consolidated Fund</i>		
Supply expenditure ⁽³⁾	8.3	8.4
Adjustment to Supply Services basis ⁽⁴⁾	-	-0.5
Other	0.5	0.5
<i>National Loans Fund</i>		
Service of the national debt	1.2	1.2
Net lending	0.1	0.2
Total Expenditure	10.0	9.8
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.3	-0.4
CGBR	0.3	0.2
On-lending	-	0.1
CGBR(O)	0.3	0.1

(1) Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

(2) Includes privatisation proceeds except where these are temporarily lodged in "other funds and accounts".

(3) On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

(4) Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

Handwritten mark

From: COLIN MOWL
15 April 1987

- 1. MR CASSELL
- 2. CHANCELLOR

Copy with PPS letter, attached, for:

Mr Norgrove - No. 10

cc List A

List B (distributed at 11.30am, 16 April)

Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Sedgwick
 Mr Peretz
 Mr Watts
 Mr Devereux
 Mr Ritchie
 Mr Clark

Chief Secretary
 Financial Secretary
 Minister of State
 Mr F E R Butler
 Mr Moore
 Mr Odling-Smee
 Mr Scholar
 Mr Turnbull
 Mrs Brown
 Mrs Butler
 Mr Culpin
 Mr Grice

Miss O Mara
 Mr C W Kelly
 Mr Pratt
 Mr Briscoe
 Mr M Richardson
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie
 Mr Calder - IR
 Mr Wilmott - C and E

MONTHLY NOTE ON THE PSBR

I attach a report on the PSBR outturn for March and 1986-87. The outturn will be published by press notice at 11.30am on Thursday 16 April.

The note also presents monthly profiles for the PSBR and its components for 1987-88, consistent with the FSBR forecast for the year as a whole.

Colin Mowl

COLIN MOWL

PUBLIC SECTOR BORROWING

Summary

- The PSBR for 1986-87 is provisionally estimated at £3.3 billion, $\frac{3}{4}$ -1 per cent of money GDP. This is about £0.8 billion lower than the forecast published in last month's Budget.
- The outturn is £3.8 billion lower than the 1986 Budget forecast and £2.4 billion lower than the 1985-86 outturn (Charts 1 and 2).
- Monthly borrowing profiles for 1987-88 are presented in this note (Chart 2 and Table 6), together with more detailed forecasts of borrowing in the period April-June.
- There is again heavy front-end loading - indeed, as in 1986-87, the PSBR in the first half-year is expected to exceed the total for the year as a whole.

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

Chart 1 : 1986-87: Comparisons with 1986 Budget profiles

£ billion cumulative

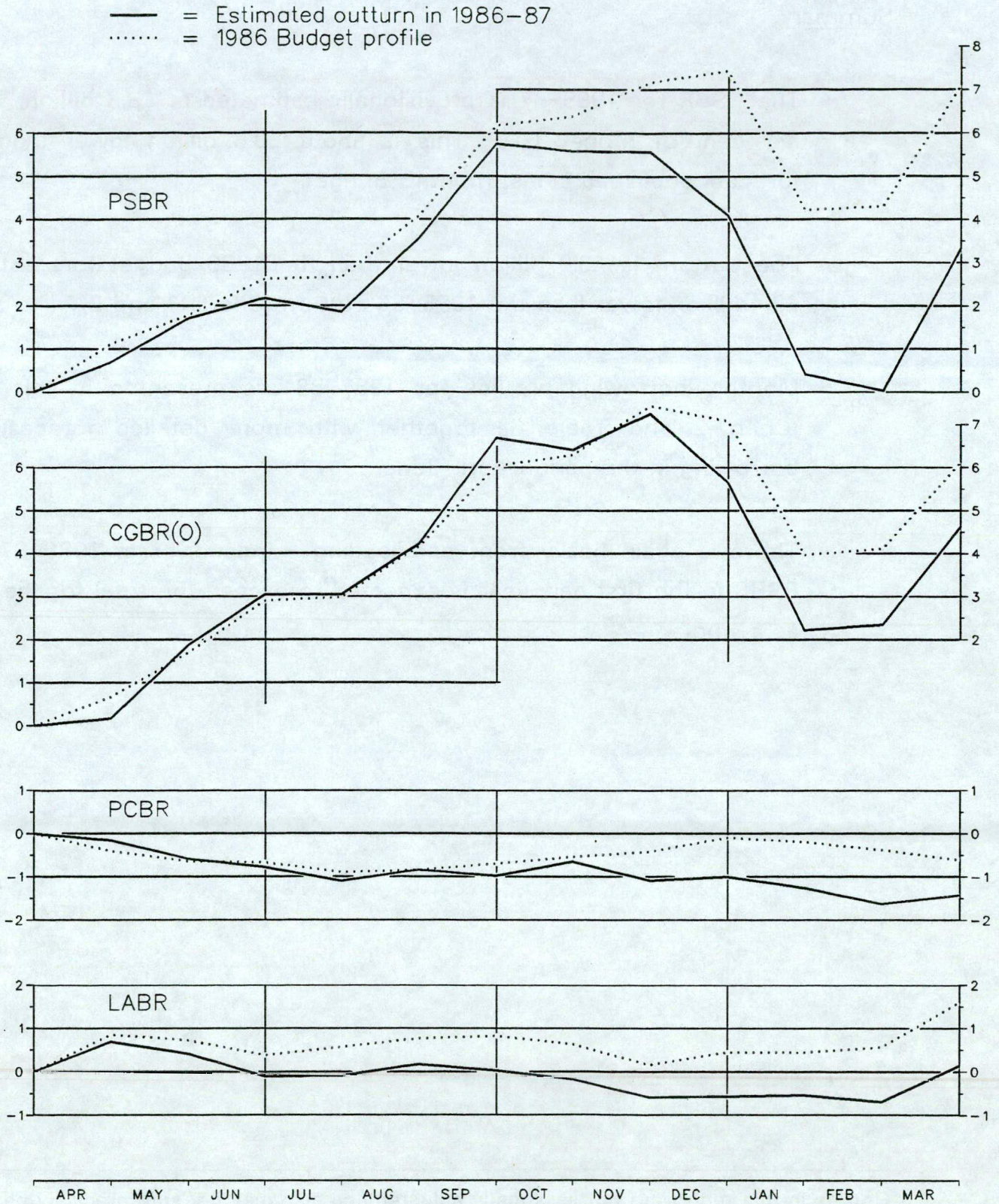


Chart 2: 1987-88: Comparisons with outturns for 1985-86 and 1986-87

£ billion cumulative

- = 1987-88 profiles
- = 1986-87 estimated outturn
- - - = 1985-86 outturn

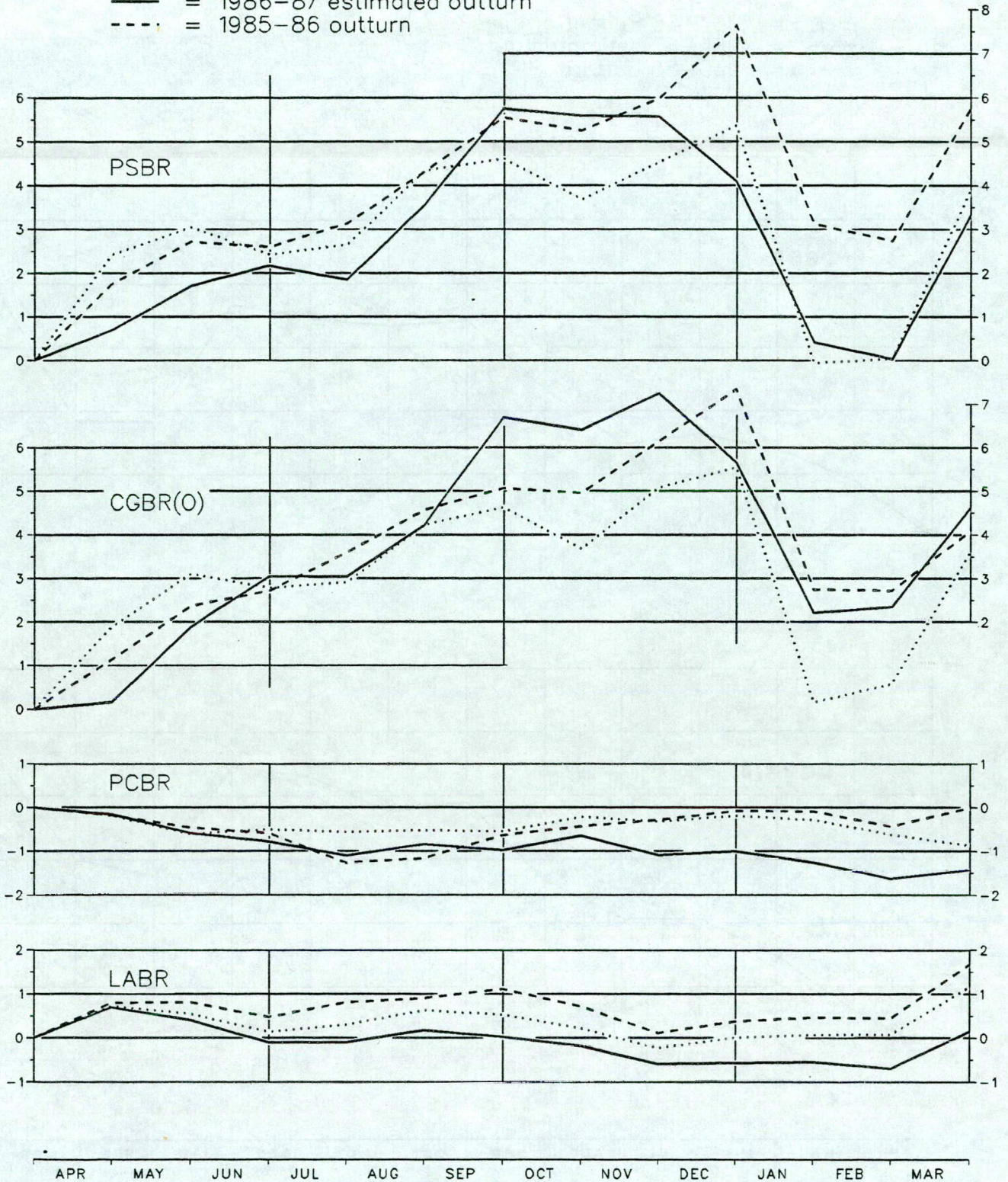
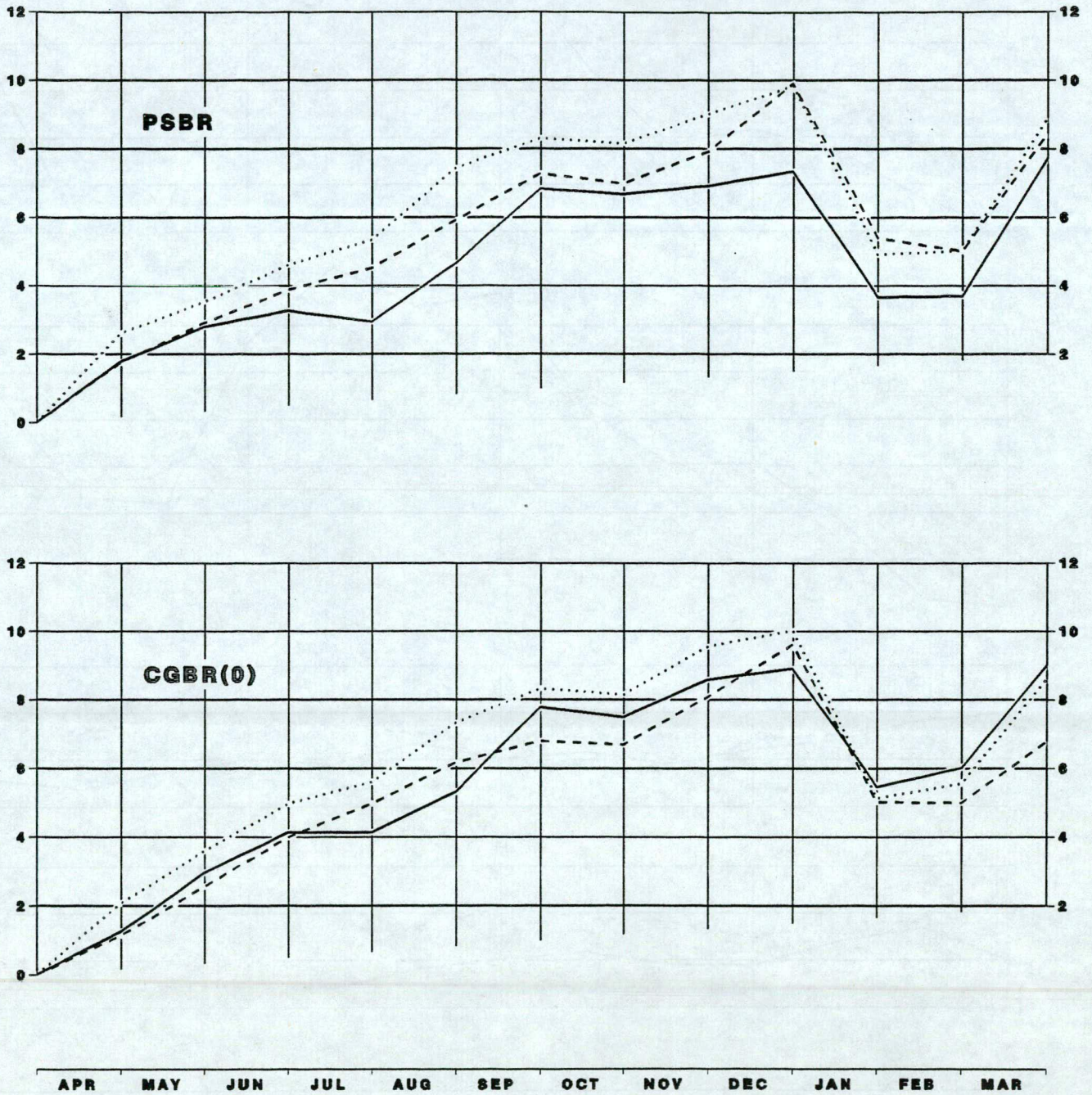


Chart 3: Comparisons excluding privatisation proceeds

£ billion cumulative

- = 1987-88 Budget profiles
- = 1986-87 estimated outturn
- - - - = 1985-86 outturn



Borrowing in March and 1986-87

(Outturn compared with last month's Budget forecast)

1. The provisional estimate of the PSBR in 1986-87 is £3.3 billion. This is also the provisional March outturn - revisions to earlier months give zero net borrowing April-February. Last month's Budget forecast for 1986-87 was £4.1 billion. The differences between the forecast published at Budget time and the outturn on the individual sub-sectors are shown in the table below. The undershoot of £0.8 billion represents about 0.2 per cent of GDP, in line with past average differences in the FSBR forecast for the year just ending. (The average difference published in the FSBR is £1 billion, but this is rounded up from £0.8 billion).

2. The provisional outturn is subject to revisions as more information becomes available, particularly on local authorities and public corporations.

Table 1: 1986-87 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
1986 Budget forecast	7.1	6.1	1.6	-0.6
1987 FSBR forecast*	4.1	5.0	0.5	-1.4
Outturn	3.3	4.6	0.1	-1.4
Difference from 1987 FSBR	-0.8	-0.4	-0.4	-

*17 March Budget

3. Borrowing on central government's own account in 1986-87 was £4.6 billion, £0.4 billion lower than last month's FSBR forecast. The difference is accounted for by lower than expected Supply expenditure (by £0.3 billion), and higher than forecast Inland Revenue receipts (by £0.2 billion), partly offset by lower than forecast Customs and Excise receipts (by £0.1 billion). Table 2 shows a provisional breakdown of Consolidated Fund revenue in 1986-87, compared with the 1986 and 1987 Budget forecasts.

4. Local authorities provisionally showed net borrowing of £0.1 billion in 1986-87, compared with the FSBR forecast of £0.5 billion. This estimate is still very uncertain : it is possible that because of new financial practices by some local authorities the numbers may have larger margins of error than hitherto. As in previous years, authorities borrowed heavily in March, but less than the average of recent years. In real terms, their borrowing in the month was the lowest March figure since 1977-78, when monthly outturns first became available.

5. Public corporations provisionally ran a surplus of £1.4 billion in 1986-87, as forecast in the 1987 FSBR. This is a £1½ billion reduction in borrowing compared with 1985-86. Industries which have significantly improved their borrowing performance this year include British Gas (an improvement in their trade credit position - partly due to delayed payments from 1985-86), British Steel (better than expected trading performance and lower stocks) and Electricity (improved trading performance and lower stockbuilding). Between them these industries more than account for the reduction in the PCBR since 1985-86 of £1.4 billion - some industries borrowing has increased, including British Coal and the Post Office.

6. On the basis of the Budget forecast of money GDP the provisional estimate of the PSBR is equivalent to $\frac{3}{4}$ -1 per cent of GDP. Excluding privatisation proceeds the PSBR is now estimated to be 2 per cent of money GDP in 1986-87. Estimates of the public sector financial deficit will not be available until June.

Borrowing in 1987-88 : Monthly Profile

7. The PSBR for 1987-88 was forecast in the 1987 Budget to be £3.9 billion, on the assumption of a 15 dollars a barrel oil price. The monthly profile in this note is consistent with the Budget forecast for the year as a whole: no allowance has been made for possible effects of the Civil Service industrial action.

8. As in previous years, borrowing is concentrated in the first half-year (details of front-end loading are shown in Table 3). For 1987-88, the forecast is that cumulative borrowing will be more than half the yearly total from April onwards, and shows heavier front-end loading than last year up to August. By September, the PSBR is forecast to exceed the yearly total, but by a lower proportion than last year.

Table 2 Consolidated Fund revenue

	£ million		
	1986-87		
	1986 Budget	1987 Budget	Provisional Outturn
<i>Inland Revenue</i>			
Income tax ¹	38 500	38 300	38 631
Corporation tax ^{2,3}	11 700	13 400	13 467
Petroleum revenue tax ⁴	2 400	1 260	1 207
Capital gains tax	1 050	1 050	1 062
Development land tax	35	55	55
Inheritance tax ⁵	910	990	999
Stamp duties	1 430	1 840	1 850
Total Inland Revenue	56 000	56 900	57 116*
<i>Customs and Excise</i>			
Value added tax	20 700	21 500	21 536
Petrol, derv etc.	7 300	7 500	7 392
Cigarettes and other tobacco	4 700	4 700	4 767
Spirits, beer, wine, cider and perry	4 400	4 200	4 171
Betting and gaming	800	760	748
Car tax	980	980	964
Other excise duties	20	20	18
EC own resources ⁶			
Customs duties, etc.	1 300	1 290	1 303
Agricultural levies	160	220	221
Total Customs and Excise	40 400	41 200	41 094*
Vehicle excise duties ⁷	2 500	2 500	2 575
Gas levy	500	520	515
Broadcasting receiving licences	1 000	1 010	1 025
Interest and dividends	840	870	874
Other ⁸	7 400	8 100	8 012
Total Consolidated Fund revenue	108 600	111 100	111 211*

* Totals show payovers to the Consolidated fund, while components show receipts by revenue departments (which differ slightly from payovers).

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Table 3: Front-end loading

Cumulative borrowing: £billion and per cent of annual total

	<u>PSBR</u>			
	<u>1986-87</u>		<u>1987-88</u>	
	£billion	per cent	£billion	per cent
Apr	0.7	21	2.4	62
May	1.7	51	3.1	78
Jun	2.2	65	2.4	62
Jul	1.9	56	2.7	68
Aug	3.6	107	4.3	111
Sep	5.7	172	4.6	118
Mar	3.3	100	3.9	100

PSBR Excluding privatisation proceeds

Apr	1.8	22	2.6	29
May	2.8	36	3.5	40
Jun	3.3	42	4.6	52
Jul	2.9	38	5.3	60
Aug	4.6	60	7.4	84
Sep	6.8	88	8.3	93
Mar	7.7	100	8.9	100

9. Excluding privatisation proceeds, nearly two-thirds of which are expected in the first half of 1987-88, the proportion of borrowing in the earlier months is slightly lower than for the total PSBR, becoming 93 per cent by September. That compares with an average of about 70 per cent in the 8 years up to and including 1986-87 and 88 per cent in 1986-87 itself.

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10. The pattern of Inland Revenue receipts is expected to be much the same as in 1986-87, with 57 per cent of the annual total occurring in the second half. As usual this is mainly due to the concentration of corporation tax receipts in the second half. Slightly higher Customs and Excise receipts are also expected in the second half-year. These higher receipts are partly offset by higher supply expenditure in the second half-year.

11. The major differences in particular months between the profiles for 1986-87 and 1987-88 shown in Chart 2 arise for the following main reasons:

- (1) the different profiles between 1986-7 and 1987-8 for privatisation proceeds mean higher borrowing in April, December and March and lower borrowing in June, September, October and January this year.
- (2) lower borrowing in September 1987 than September 1986 because of a large payment of PRT this year compared with a repayment last year.

Sectoral split of PSBR in 1987-88

12. The forecast split of the PSBR between central government, local authorities and public corporations is significantly different from the outturn in 1986-87. A breakdown was not published in the 1987 Budget but the underlying forecast comprised borrowing of £3.6 billion on central government's own account, £1.2 billion by local authorities and a surplus of £0.9 billion by public corporations. In 1986-87 the CGBR(O) was nearly £1 billion higher but the PCBR and LABR were a little lower.

Central Government borrowing in 1987-88

13. The Budget forecast of borrowing on central government own account in 1987-88 is £3.6 billion, compared with the provisional outturn of £4.6 billion in 1986-87. Excluding privatisation proceeds borrowing in 1987-88 is forecast only a little below 1986-87. The profile of borrowing in 1987-88 is forecast to repeat the significant front-end loading of the last three years. Borrowing in the first six months of 1987-88 is forecast to be £1.6 billion higher than in the year as a whole. (Excluding privatisation proceeds, the figure for

the first six months is similar to that for the whole year.) The second half of the year is dominated by the £5.4 billion surplus in January resulting from the peak of Inland Revenue receipts. This surplus is nearly £2 billion higher than in January 1986. Borrowing in March is forecast to be about £¾ billion higher than in March 1986. Notes on the profiles for the main items are as follows.

a) Inland Revenue

14. In general, the main categories of tax receipts are expected to follow a similar pattern to that in 1986-87. Both Income Tax and Corporation Tax receipts will peak in January (totalling some £11½ billion), and smaller peaks will occur in July (high advance Corporation Tax and schedule D receipts from the self-employed), and October (high mainstream and advance corporation tax).

15. The pattern of Petroleum Revenue tax is, however, expected to be different in 1987-88. There were net repayments of PRT in September 1986 (£1 billion) and February 1987 (£0.1 billion) - the latter as a result of the repayment of advance PRT, announced in the Autumn Statement. During 1987-88, PRT is expected to peak in September (of £0.6 billion) as part of the September payment makes good the difference between liabilities for January - June 1987 and the May - August instalments based on liability for the period July - December 1986, when the £ oil price was lower. A reverse pattern is expected in the second half of 1987-88, on the assumption that the average oil price is lower in the second half of 1987 than the first half. A small net repayment (of £0.1 billion) is expected in March 1988.

b) Customs and Excise

16. The profile is similar to last year. The implementation of certain recommendations of the Keith committee are thought to have boosted VAT receipts in September and October 1986. Further measures in 1987-88 (from debt reduction and penalty payments) are expected to generate additional receipts but these are assumed to be spread evenly throughout the year. The effect of Budget forestalling on the receipts of tobacco, wine and spirits in March and April 1988 is assumed to be similar to the effect in 1987.

c) Interest and dividend receipts

17. The profile for interest and dividend receipts is similar to 1986-87, with high receipts in September and March, the main months for interest receipts from NLF lending to local authorities and public corporations. The only major difference is for the inclusion for the first time in June and December of dividend payments by British Gas.

d) Supply Expenditure

18. The profile of supply expenditure is similar to that of 1986-87, with peaks in April and March. This profile is provisional, and may be revised later this month following receipts of further information from departments.

Particular features of the forecast profile for 1987-88 are as follows:

- December is the only month when supply is lower than last year (chart 4). This follows the assumption that ECGD trading activities will show a large receipt (£0.4 billion) in that month. This follows from the refinancing of Nigerian debt.
- Payments of grants to British Coal are assumed to be more even this year than in 1986-87, when large payments were made in September and November.
- The end-year surge in March 1988 is assumed to be similar to that in 1986-87, excluding the payments for Rover from the latter.

e) Privatisation proceeds

19. The Budget forecast of privatisation proceeds is £5 billion. Of this, £0.2 billion has already been received in April for the sale of the Royal Ordnance Factories. £1.7 billion is for the second call on British Gas shares in June, and £0.4 billion for the second call on British Airways shares in August. The balance of the £5 billion is assumed to come mostly from three other major privatisations, the receipts from which are assumed in May, July,

September and October 1987 (BP first call) and January 1988. This profile differs markedly from the outturn in 1986-87 when privatisation proceeds totalled £4.4 billion. Chart 3 shows the 1986-87 outturn and the 1987-88 profile for the CGBR(O) and PSBR excluding privatisation proceeds.

f) National Insurance Fund

20. Expenditure on contributory benefits (mainly pensions, invalidity benefit and unemployment benefit) is funded from the National Insurance Fund. 1987-88 is the first year in which the annual benefit uprating (worth 2.1 per cent this year) takes place at the beginning of April: in the past (with the exception of the transitional arrangements last year) benefits were uprated in November. Under the new system the profile for benefit expenditure is expected to be relatively smooth (with the exception of the Christmas bonus for pensioners in December, and some advance payments before public holidays).

g) EEC

21. Net payments to the EEC are assumed to be relatively flat during 1987 but lower in January to March 1988 due to an increase in the level of the VAT abatement.

g) Interest payments

22. The profile of interest payments on the National Debt is similar to 1986-87 with large payments in May, July, November, January and low payments in June and December. The first maturity of an index-linked stock will occur in March 1988, uplift on which (£¼ billion) scores as interest payments.

Local Authority borrowing in 1987-88

23. There is particular uncertainty about local authorities borrowing in 1986-87 and the forecast for 1987-88. Local authorities borrowing in 1987-88 underlying the FSBR is forecast at £1.2 billion, over £1 billion higher than the outturn in 1986-87 (£0.1 billion). The monthly profile (Chart 2 and Table 6) is based on seasonal factors derived from borrowing patterns of previous years. The main feature of the profile is the usual high net borrowing in April 1987 and in March 1988, the months of low rate income. One uncertainty is whether lower than average borrowing in March 1987 will increase borrowing in April.

Public Corporations borrowing in 1987-88

24. Public corporations are forecast to make net repayments of debt of £0.9 billion in 1987-88 following a repayment of £1.4 billion in 1986-87. This represents a small reduction between the two years in borrowing of those industries unaffected by privatisation.

25. The forecast profile is constructed from profiles for individual industries. It should be noted however, that the outturn PCBR is constructed partly from counterpart data from the banks for borrowing by the sector as a whole. It will not be possible therefore as the year progresses to fully reconcile the outturn total with figures for individual industries. The forecast profile for 1987-88 is provisional and may be revised later this month when the latest quarterly returns from industries showing borrowing plans have been analysed. It shows a large repayment in the first half of the year - a typical outcome of the last few years. The repayment is projected to be smaller than in the first half of 1986-87, when British Gas (then in the public sector) made a substantial net repayment of debt to the private sector. Otherwise, the profile is quite similar, with moderate borrowing in the last few months of 1987 and sizeable repayments in the last three months of 1987-88 (dominated by repayments of the Electricity Supply Industry).

April to June 1987

26. Borrowing is likely to total about £2½ billion over the next three months, slightly higher than borrowing in the same months of 1986-87. Higher borrowing in April is largely offset by relatively lower borrowing in June.




27. Borrowing on central government's own account in April to June is forecast to be around £2¾ billion, low borrowing in June reflecting receipts of about £¾ billion from the second call on British Gas.

28. Local authorities borrowing is expected to be close to zero. Their borrowing in April (when little rate income is received) is usually high, and net repayments of debt in May and June are expected.

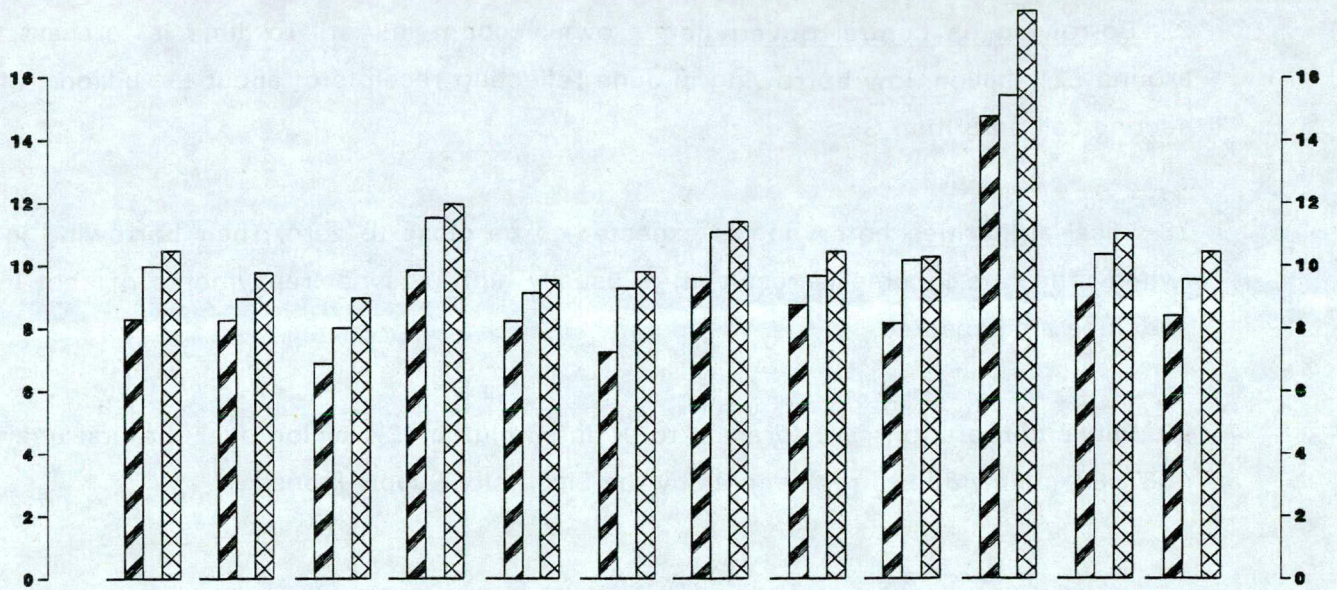
29. Public corporations are forecast to be in surplus by £½ billion over the first quarter of 1987-88, mainly due to repayments by the Electricity Supply Industry.

Chart 4: Components of central government receipts and expenditure

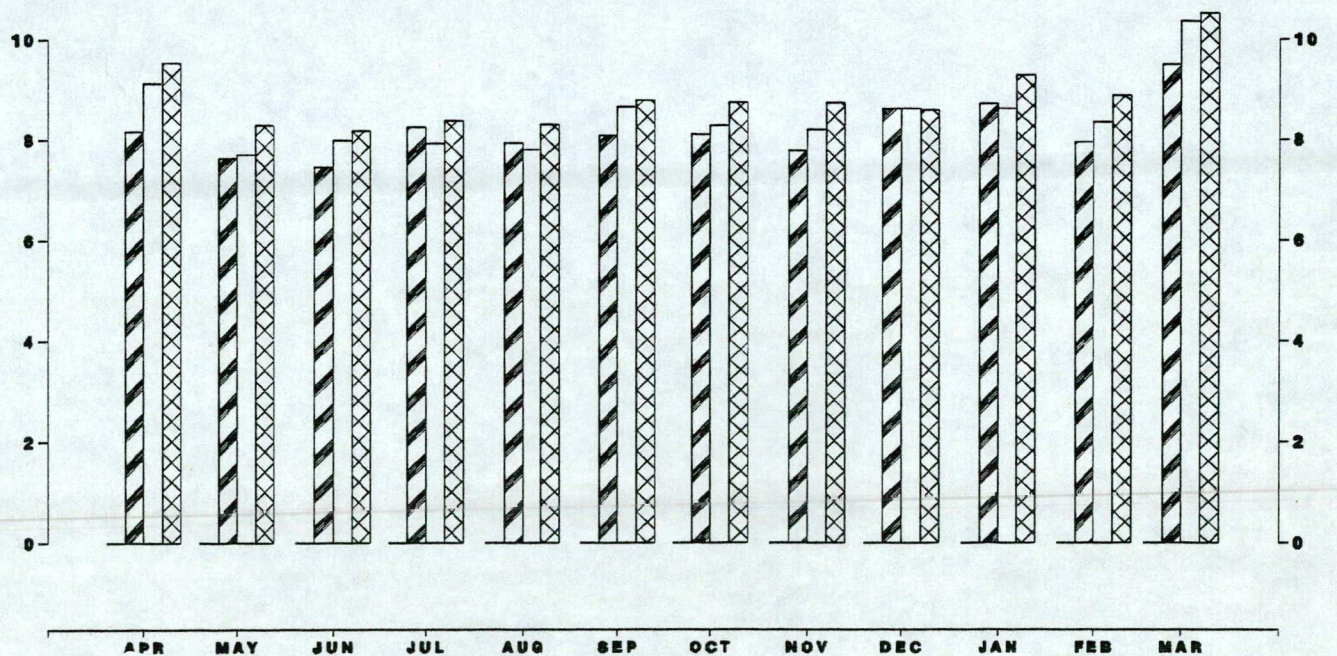
£ billion

-  = 1987-88 Budget profile
-  = Estimated outturn in 1986-87
-  = Outturn in 1985-86

(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS



(II) SUPPLY EXPENDITURE



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Table 4: 1986-87: Outturns
(1986 Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1986-87								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.0	<i>0.7</i>	1.7	<i>1.0</i>	-0.3	<i>-0.1</i>	-0.4	<i>-0.2</i>
Jun	0.5	<i>0.8</i>	1.2	<i>1.2</i>	-0.5	<i>-0.3</i>	-0.2	<i>-</i>
Jul	-0.3	<i>-</i>	-	<i>0.1</i>	-	<i>0.2</i>	-0.3	<i>-0.2</i>
Aug	1.7	<i>1.4</i>	1.2	<i>1.2</i>	0.3	<i>0.2</i>	0.3	<i>0.1</i>
Sep	2.2	<i>2.1</i>	2.5	<i>1.9</i>	-0.1	<i>0.1</i>	-0.1	<i>0.2</i>
Oct	-0.2	<i>0.2</i>	-0.3	<i>0.3</i>	-0.2	<i>-0.2</i>	0.3	<i>0.2</i>
Nov	-	<i>0.8</i>	0.8	<i>1.1</i>	-0.4	<i>-0.5</i>	-0.4	<i>0.1</i>
Dec	-1.5	<i>0.3</i>	-1.6	<i>-0.4</i>	-	<i>0.3</i>	0.1	<i>0.3</i>
Jan	-3.7	<i>-3.2</i>	-3.4	<i>-3.1</i>	-	<i>-</i>	-0.3	<i>-0.1</i>
Feb	-0.4	<i>0.1</i>	0.1	<i>0.1</i>	-0.2	<i>0.1</i>	-0.4	<i>-0.2</i>
Mar	3.3	<i>2.8</i>	2.3	<i>2.0</i>	0.8	<i>1.0</i>	0.2	<i>-0.2</i>
Cumulative								
Apr	0.7	<i>1.1</i>	0.2	<i>0.7</i>	0.7	<i>0.9</i>	-0.2	<i>-0.4</i>
May	1.7	<i>1.8</i>	1.9	<i>1.7</i>	0.4	<i>0.7</i>	-0.6	<i>-0.6</i>
Jun	2.2	<i>2.6</i>	3.0	<i>2.9</i>	-0.1	<i>0.4</i>	-0.8	<i>-0.7</i>
Jul	1.9	<i>2.7</i>	3.0	<i>3.0</i>	-0.1	<i>0.6</i>	-1.1	<i>-0.9</i>
Aug	3.6	<i>4.1</i>	4.2	<i>4.2</i>	0.2	<i>0.8</i>	-0.8	<i>-0.8</i>
Sep	5.7	<i>6.2</i>	6.7	<i>6.0</i>	-	<i>0.8</i>	-1.0	<i>-0.7</i>
Oct	5.6	<i>6.4</i>	6.4	<i>6.3</i>	-0.2	<i>0.6</i>	-0.6	<i>-0.5</i>
Nov	5.6	<i>7.2</i>	7.2	<i>7.4</i>	-0.6	<i>0.2</i>	-1.1	<i>-0.4</i>
Dec	4.1	<i>7.4</i>	5.7	<i>7.1</i>	-0.6	<i>0.5</i>	-1.0	<i>-0.1</i>
Jan	0.4	<i>4.2</i>	2.2	<i>4.0</i>	-0.5	<i>0.4</i>	-1.3	<i>-0.2</i>
Feb	-	<i>4.3</i>	2.3	<i>4.1</i>	-0.7	<i>0.6</i>	-1.6	<i>-0.4</i>
Mar	3.3	<i>7.1</i>	4.6	<i>6.1</i>	0.1	<i>1.6</i>	-1.4	<i>-0.6</i>

Table 5: PSBR for 1986-87 - comparisons with 1985-86 and 1986 Budget profile

£ billion

	1985-86	1986-87		Differences from	
	Outturn	1986 Budget profile	Latest update ⁽¹⁾	1985-86 outturn	1986 Budget profile
		1	2	3	3-1
Apr	1.8	1.1	0.7	-1.1	-0.4
May	1.0	0.7	1.0	-	0.3
Jun	-0.1	0.8	0.5	0.6	-0.4
Q2	2.6	2.6	2.2	-0.4	-0.5
Jul	0.5	-	-0.3	-0.9	-0.4
Aug	1.2	1.4	1.7	0.5	0.3
Sep	1.2	2.1	2.2	1.0	0.1
Q3	2.9	3.6	3.6	0.6	-
Oct	-0.3	0.2	-0.2	0.1	-0.4
Nov	0.7	0.8	-	-0.8	-0.8
Dec	1.7	0.3	-1.5	-3.1	-1.7
Q4	2.1	1.3	-1.7	-3.7	-2.9
Jan	-4.5	-3.2	-3.7	0.8	-0.5
Feb	-0.4	0.1	-0.4	-	-0.5
Mar	3.0	2.8	3.3	0.3	0.5
Q1	-1.9	-0.3	-0.8	1.1	-0.4
Cumulative					
Apr	1.8	1.1	0.7	-1.1	-0.4
May	2.7	1.8	1.7	-1.0	-0.1
Jun	2.6	2.6	2.2	-0.4	-0.5
Jul	3.1	2.7	1.9	-1.3	-0.8
Aug	4.3	4.1	3.6	-0.8	-0.5
Sep	5.6	6.2	5.7	0.2	-0.4
Oct	5.3	6.4	5.6	0.3	-0.8
Nov	6.0	7.2	5.6	-0.4	-1.6
Dec	7.6	7.4	4.1	-3.5	-3.3
Jan	3.1	4.2	0.4	-2.7	-3.8
Feb	2.7	4.3	-	-2.7	-4.3
Mar	5.8	7.1	3.3	-2.4	-3.8

Table 6: Borrowing requirement monthly profiles 1987-88
(1986-87 outturns in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1987-88								
Apr	2.4	<i>0.7</i>	1.9	<i>0.2</i>	0.7	<i>0.7</i>	-0.2	<i>-0.2</i>
May	0.6	<i>1.0</i>	1.2	<i>1.7</i>	-0.2	<i>-0.3</i>	-0.4	<i>-0.4</i>
Jun	-0.6	<i>0.5</i>	-0.3	<i>1.2</i>	-0.4	<i>-0.5</i>	0.1	<i>-0.2</i>
Jul	0.2	<i>-0.3</i>	0.1	<i>-</i>	0.2	<i>-</i>	-0.1	<i>-0.3</i>
Aug	1.7	<i>1.7</i>	1.3	<i>1.2</i>	0.3	<i>0.3</i>	-	<i>0.3</i>
Sep	0.3	<i>2.2</i>	0.4	<i>2.5</i>	-0.1	<i>-0.1</i>	-	<i>-0.1</i>
Oct	-0.9	<i>-0.2</i>	-1.0	<i>-0.3</i>	-0.3	<i>-0.2</i>	0.3	<i>0.3</i>
Nov	0.9	<i>-</i>	1.4	<i>0.8</i>	-0.5	<i>-0.4</i>	-0.1	<i>-0.4</i>
Dec	0.8	<i>-1.5</i>	0.5	<i>-1.6</i>	0.2	<i>-</i>	0.1	<i>0.1</i>
Jan	-5.4	<i>-3.7</i>	-5.4	<i>-3.4</i>	0.1	<i>-</i>	-0.1	<i>-0.3</i>
Feb	0.1	<i>-0.4</i>	0.4	<i>0.1</i>	-	<i>-0.2</i>	-0.3	<i>-0.4</i>
Mar	3.9	<i>3.3</i>	3.0	<i>2.3</i>	1.1	<i>0.8</i>	-0.2	<i>0.2</i>
Cumulative								
Apr	2.4	<i>0.7</i>	1.9	<i>0.2</i>	0.7	<i>0.7</i>	-0.2	<i>-0.2</i>
May	3.1	<i>1.7</i>	3.1	<i>1.9</i>	0.6	<i>0.4</i>	-0.6	<i>-0.6</i>
Jun	2.4	<i>2.2</i>	2.8	<i>3.0</i>	0.1	<i>-0.1</i>	-0.5	<i>-0.8</i>
Jul	2.7	<i>1.9</i>	2.9	<i>3.0</i>	0.3	<i>-0.1</i>	-0.6	<i>-1.1</i>
Aug	4.3	<i>3.6</i>	4.2	<i>4.2</i>	0.6	<i>0.2</i>	-0.5	<i>-0.8</i>
Sep	4.6	<i>5.7</i>	4.6	<i>6.7</i>	0.5	<i>-</i>	-0.5	<i>-1.0</i>
Oct	3.7	<i>5.6</i>	3.7	<i>6.4</i>	0.2	<i>-0.2</i>	-0.2	<i>-0.6</i>
Nov	4.5	<i>5.6</i>	5.1	<i>7.2</i>	-0.2	<i>-0.6</i>	-0.3	<i>-1.1</i>
Dec	5.4	<i>4.1</i>	5.5	<i>5.7</i>	-	<i>-0.6</i>	-0.2	<i>-1.0</i>
Jan	-0.1	<i>0.4</i>	0.2	<i>2.2</i>	0.1	<i>-0.5</i>	-0.3	<i>-1.3</i>
Feb	-	<i>-</i>	0.6	<i>2.3</i>	0.1	<i>-0.7</i>	-0.6	<i>-1.6</i>
Mar	3.9	<i>3.3</i>	3.6	<i>4.6</i>	1.2	<i>0.1</i>	-0.9	<i>-1.4</i>

**Table 7: Central government transactions – March
outturn and latest forecasts for April–June**

£ billion

	March		Latest forecasts		
	forecast	outturn ⁽¹⁾	Apr	May	Jun
Receipts					
<i>Consolidated Fund</i>					
Inland Revenue	4.1	4.4	4.6	3.8	3.8
Customs and Excise	3.2	3.1	3.7	3.6	2.9
Other ⁽²⁾	2.3	2.3	0.7	1.1	2.2
<i>National Loans Fund</i>					
Interest etc. receipts	1.0	1.0	0.6	0.4	0.6
Total Receipts	10.6	10.8	9.5	8.9	9.6
Expenditure					
<i>Consolidated Fund</i>					
Supply expenditure ⁽³⁾	10.7	10.7	9.5	8.3	8.2
Adjustment to Supply Services basis ⁽⁴⁾	-0.6	-0.5	-	0.2	-0.1
Other	0.7	0.7	0.5	0.5	0.5
<i>National Loans Fund</i>					
Service of the national debt	1.4	1.4	1.1	1.6	0.6
Net lending	1.0	1.9	0.3	-0.1	0.2
Total Expenditure	13.1	14.4	11.4	10.4	9.3
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	1.3	0.8	0.3	-0.3	0.1
CGBR	3.8	4.3	2.2	1.2	-0.1
On-lending	1.1	2.1	0.3	-0.1	0.2
CGBR(O)	2.8	2.3	1.9	1.2	-0.3

⁽¹⁾Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

⁽²⁾Includes receipts from sales of assets

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

Table 8: Central government transactions⁽¹⁾ – comparisons for the full financial year

	1986-87		1987-88
	1987 Budget forecast	Outturn	1987 Budget forecast
£ billion			
Receipts			
<i>Consolidated Fund</i>			
Inland Revenue	56.9	57.1	61.1
Customs and Excise	41.2	41.1	43.8
Other ⁽²⁾	13.0	13.0	12.7
<i>National Loans Fund</i>			
Interest etc. receipts	6.7	6.7	6.9
Total Receipts	117.8	117.9	124.4
Expenditure			
<i>Consolidated Fund</i>			
Supply expenditure ⁽³⁾	101.9	101.6	106.2
Adjustment to Supply Services basis ⁽⁴⁾	-	0.5	-
Other	5.4	5.5	5.5
<i>National Loans Fund</i>			
Service of the national debt	15.6	15.6	16.2
Net lending	4.7	5.6	2.8
Total Expenditure	127.6	128.8	130.7
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.2	-0.3	0.3
CGBR	10.0	10.6	6.5
On-lending	5.0	6.0	2.9
CGBR(O)	5.0	4.6	3.6

⁽¹⁾Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.

⁽²⁾Includes receipts from sales of assets.

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

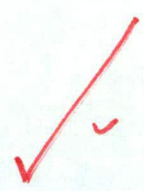
CONFIDENTIAL AND PERSONAL

FROM: R J DEVEREUX

DATE: 5 May 1987

1. MR MOWL *R.J.M.*
2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Sedgwick
 Mr Peretz
 Mr Watts
 Mr Ritchie



CGBR(O) AND CGBR IN APRIL

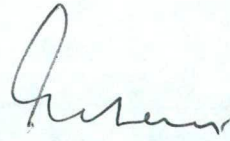
The provisional outturn for the CGBR(O) in April is £1.8 billion, £0.1 lower than forecast last month. Higher Inland Revenue receipts (by £0.2 billion) and other changes reducing borrowing were partly offset by lower National Insurance Contributions (by £0.2 billion). The estimate of the outturn is subject to revision before publication on Tuesday 19 May.

2. Industrial action by civil servants has not affected the CGBR(O) significantly in April. Some Customs and Excise receipts were delayed during the month, but by the end of the month there were no receipts outstanding because of industrial action. The effects of industrial action on expenditure in April are harder to quantify but are small in relation to the overall CGBR(O)

3. On-lending to local authorities in April was high (£1.1 billion), but was offset by a £0.5 billion repayment of on-lending by public corporations (mainly Electricity Council). The CGBR in April was therefore £2.4 billion.

4. The CGBR(O) in April is £1.6 billion higher than in April 1986. The main difference is lower privatisation proceeds (by £0.9 billion - receipts in April 1986 for the final call on BT were £1.1 billion, receipts in April 1987 for the sale of the ROFS were £0.2 billion). In addition, receipts in April 1987 were lower than in the previous year for Petroleum Revenue Tax (by £0.3 billion), National Insurance Contributions, and interest.

5. Further analysis of the outturn in April will be given in the next Ministerial note on the PSBR in two week's time.



R J DEVEREUX

CONFIDENTIAL AND PERSONAL
CENTRAL GOVERNMENT TRANSACTIONS

£ billion

	April 1987			April 1986
	Provisional outturn	Last month's forecast	Difference	Outturn
Inland Revenue	+ 4.8	+ 4.6	+ 0.2	+ 4.7
Customs and Excise	+ 3.7	+ 3.7	-	+ 3.4
Other own account	- 10.2	- 10.1	- 0.1	- 8.2
CGBR(O)	- 1.8	- 1.9	+ 0.1	- 0.2
On- lending:				
- LAs	- 1.1	- 0.8	- 0.4	- 2.4
- PCs	+ 0.5	+ 0.4	+ 0.1	+ 0.3
CGBR	- 2.4	- 2.2	- 0.2	- 2.3

+ indicates a net receipt, or difference which reduces the CGBR.

- indicates a net payment, or difference which increases the CGBR.

CONFIDENTIAL

FROM: COLIN MOWL
DATE: 13 May 1987

CHANCELLOR OF THE EXCHEQUER ✓

cc Sir P Middleton
Sir T Burns
Mr Cassell o.r
Mr Peretz
Mr Sedgwick
Mr Ritchie
Mr Devereux
Dr Clark

PSBR IN APRIL

Nigel
Thanks

You asked (Mrs Ryding's minute to me of 13 May) whether the small upward revision to the PSBR in 1986-87 altered the per cent of GDP figure.

2. The 1986-87 outturn is changing daily as the CSO gets more information. All the figures are on the margin between $\frac{3}{4}$ and 1 per cent of money GDP (using the FSBR forecast of money GDP). The figure we gave you yesterday just rounded up to 1 per cent but the latest figure just rounds down to $\frac{3}{4}$ per cent. An increase of less than £10 million would push the rounding back the other way.

3. In these circumstances we can really be no more precise than the statement we issued publicly last month that the PSBR was in the range $\frac{3}{4}$ to 1 per cent of money GDP.

Colin Mowl

COLIN MOWL