



PO-CH/NL/0232

PART D

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PART D

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PART D

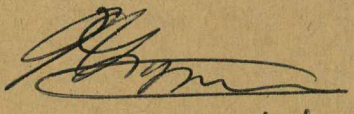
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CHANCELLOR'S PAPERS ON  
PUBLIC EXPENDITURE  
PROGRAMMES AND THE  
PUBLIC SECTOR BORROWING  
REQUIREMENT (PSBR)

PO -CH /NL/0232  
PART D

Begin: 25/2/88  
Ends: 6/7/88 (CONTINUED)

DD: 25 years

  
20/9/95

CONFIDENTIAL

FROM: J. ANSON  
25th February, 1988.

CHIEF SECRETARY

- c.c. Chancellor
- Financial Secretary
- Economic Secretary
- Paymaster General
- Sir P. Middleton
- Sir A. Wilson
- Mr. Phillips
- Mr. Monck
- HEGs

- Mr. Odling-Smee
- Mr. Beastall
- Mr. Gieve
- Mrs. Butler
- Mr. Richardson
- Mr. L. Watts
- Mr. Hurst
- Mr. G. C. White
- Miss Evans

FINANCIAL REPORTING TO PARLIAMENT

We have now revised our Memorandum on this subject in the light of the Chancellor's meeting and the TCSC Report. I think you should see the way in which we propose to put this to departments, which is set out in the documents attached to Mr. Turnbull's minute below. This has been fully discussed with me and I agree with it, subject to the two small amendments shown.

2. The TCSC have now come so close to what we ourselves have in mind that there is a risk that the PAC will feel that we have not paid enough attention to them. We have however drafted the Memorandum so as to appear as evenhanded as possible, and to emphasise the points where we are in agreement with both Committees. I hope therefore that the PAC will still feel that we have paid sufficient heed to their suggestions. We have also slipped in a renewed attempt to get PAC to endorse the proposals for simplifying the Estimates which we and the NAO put to them in the last round.

3. On the specific questions which Mr. Turnbull raises in his covering note, I agree with the conclusions in his paragraph 6. You will want to look particularly at what is said about editorship in paragraphs 6-7 of the letter to departments. This is designed to give departments

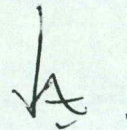
*1. Am well content with this.*  
*2. I have made a number of (assisted drafts) amendments (draft HPT Memorandum in. ps left)*  
*Can wait to think*  
*Miss Evans*  
*PS left*  
*draft*  
*HPT*  
*Memorandum in. ps left*  
*draft*  
*letter*  
*PFOs*  
*to CST.*

11

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editorship of the text, subject to agreement with the Treasury, and within the common framework prescribed for the departmental reports as a whole; thus giving them a clearer responsibility for giving an account of their own stewardship. This is reflected in the suggestion that each report should be presented in the name of the Secretary of State and yourself, instead of the present position where the entire PEWP is presented by the Treasury. Given the collective nature of Government, it would be sufficient for the Secretary of State to present the departmental report alone, while the Treasury would continue to lay the Supply Estimates. But we think the Treasury's interest in these reports, insofar as they relate back to the Autumn Statement and across to the Supply Estimates, is sufficient to justify a Treasury name on the front, just as a Treasury Minister is habitually included among the backers of a Bill with significant financial implications. This is in any case one of the points which will be covered in our discussions with departments.

4. If you agree, we will of course report back after our discussion with departments, before the Memorandum is sent to the Committees.



J. ANSON

CONFIDENTIAL

FROM: G C WHITE  
DATE: 14 March 1988

MISS WALLACE

cc Mr Turnbull  
Mrs R J Butler  
Mr Gieve

**YEAR ON YEAR INCREASES IN THE PLANNING TOTAL AND GENERAL GOVERNMENT EXPENDITURE**

I attach a table which shows year on year percentage changes in real terms from 1986-87 to 1991-92. The table also shows the underlying cash figures, real terms figures and the absolute differences in real terms.

2. These calculations are based on the unrounded numbers underlying the FSBR figures. As the FSBR figures for 1989-90 and later years are heavily rounded, the more detailed figures in the attached table should not be used publicly.

G C WHITE

a  
This answers question about  
real terms fill ~ 1987-88

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	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
<b>A. CASH £ billion</b>							
PLANNING TOTAL	133.7	139.2	146.0	156.8	167.1	176.1	184
excluding privatisation proceeds	136.4	143.7	151.0	161.8	172.1	181.1	189
GENERAL GOVERNMENT EXPENDITURE	158.2	165.0	171.8	182.9	193	202	210
excluding privatisation proceeds	161.0	169.4	176.8	187.9	198	207	215
<b>B. REAL TERMS (1986-87=100) £ billion</b>							
PLANNING TOTAL	138.0	139.2	139.1	143.0	146.6	149.4	152
excluding privatisation proceeds	140.8	143.7	144.0	147.5	151.0	153.6	156
GENERAL GOVERNMENT EXPENDITURE	163.4	165.0	163.7	166.8	169	171	173
excluding privatisation proceeds	166.2	169.4	168.5	171.3	174	175	177
<b>C. REAL TERMS (1986-87=100) Year on year absolute change £ billion</b>							
PLANNING TOTAL		+1.2	-0.1	+3.8	+3.6	+2.7	+2.3
excluding privatisation proceeds		+2.8	+0.3	+3.6	+3.5	+2.6	+2.1
GENERAL GOVERNMENT EXPENDITURE		+1.6	-1.3	+3.1	+2.4	+1.7	+1.6
excluding privatisation proceeds		+3.2	-0.9	+2.8	+2.3	+1.6	+1.5
<b>D. REAL TERMS (1986-87=100) Year on year percentage change</b>							
PLANNING TOTAL		+0.9	-0.1	+2.8	+2.5	+1.9	+1.5
excluding privatisation proceeds		+2.0	+0.2	+2.5	+2.4	+1.7	+1.4
GENERAL GOVERNMENT EXPENDITURE		+1.0	-0.8	+1.9	+1.5	+1.0	+0.9
excluding privatisation proceeds		+1.9	-0.5	+1.7	+1.3	+0.9	+0.8

89-90 figures onwards

based on unrounded figures

not

for

use

FROM: COLIN MOWL  
DATE: 14 March 1988

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Sedgwick  
Mr Odling-Smee  
Mr R I G Allen  
Mr Bush  
Mr Ritchie  
Ms Chapman

**DRAFT PRESS BRIEFING ON PSBR IN FEBRUARY**

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

2. The estimate of the PSBR in February to be published on Wednesday is a net repayment of £0.5 billion, a £0.1 billion larger repayment than the first estimate reported in Mr Sedgwick's minute of 9 March (The PSBR in 1987-88 and 1988-89: Final PSBR figures for the FSBR).

3. Available City forecasts are for a net repayment in the range zero to £½ billion, with an average of zero. The outturn is therefore a higher repayment than generally expected in the City.

4. The summary line to take and statement to Reuters uses the same format as in previous months, as follows:

"PSBR in February provisionally net repayment of £0.5 billion. Excluding privatisation proceeds, PSBR for first 11 months of 1987-88 was net repayment of £2.3 billion, as compared with borrowing of £3.8 billion in same period of 1986-87."

5. In a normal month we would not engage in speculation about the PSBR in future months, but on this occasion the briefing (see Q3 and Q4 in particular) mounts a defence of the March figure implied by the estimated outturn for 1987-88 in the FSBR. The general approach is to assert that the FSBR is fully consistent with the February outturn. More specifically the implied March figures for the LABR and PCBR are presented as being in line (adjusting for inflation) with the past average and some special factors boosting central government borrowing are adduced.

Conclusion

6. We should be grateful for comments on the draft briefing on Tuesday morning.

*Colin Mowl*

COLIN MOWL



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(DRAFT)

From: ALLEN RITCHIE  
16 March 1988

MR R.I.G. ALLEN - IDT

MR LANG - CSO Press Office

cc List A

List B

(distributed at 11.30am, 16 March)

Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mrs Butler  
Mr Grice

Mr Mowl  
Miss O'Mara  
Mr Pickford  
Mr Bush  
Mr Franklin  
Mrs Todd  
Mr R Evans  
Miss Chapman  
Mr Mansell - CSO  
Mr Richardson - CSO  
Mr Wright B/E  
Mr Gray - No 10

Mr C.M. Kelly  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Ko - IR  
Mr Balley - C and E

**BRIEFING FOR 16 MARCH PSBR PRESS NOTICE**

The PSBR figures for February will be published at 11.30am on 16 March. The provisional outturns, together with figures for the first eleven months of 1986-87 and 1987-88, are shown in Table 1. Cumulative figures for the PSBR and its components for 1985-86 and 1986-87 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

**Table 1:**

**Borrowing requirement outturns**

£ billion

	Apr 1986 -Feb 1987	Apr 1987 -Feb 1988	Feb 1988
Central government on own account	2.3	-6.2	-0.3
Local authorities	-0.7	0.3	0.2
Public corporations	-1.6	-1.5	-0.4
PSBR	0.1	-7.4	-0.5

Memo:  
PSBR (excluding privatisation  
proceeds)

3.8                      -2.3                      -0.5

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		
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88
Apr	1.1	0.2	<b>1.9</b>	0.8	0.7	<b>0.5</b>	-0.2	-0.1	<b>-0.4</b>	1.8	0.8	<b>2.0</b>
May	2.3	1.9	<b>2.2</b>	0.8	0.4	<b>0.1</b>	-0.4	-0.5	<b>-0.4</b>	2.7	1.8	<b>1.9</b>
Jun	2.7	3.1	<b>1.7</b>	0.5	-0.1	<b>0.2</b>	-0.5	-0.7	<b>-0.5</b>	2.6	2.2	<b>1.4</b>
Jul	3.6	3.1	<b>1.4</b>	0.8	-0.1	<b>0.4</b>	-1.2	-1.1	<b>-0.8</b>	3.1	1.9	<b>1.0</b>
Aug	4.6	4.2	<b>2.3</b>	0.9	0.2	<b>0.2</b>	-1.2	-0.8	<b>-0.8</b>	4.3	3.6	<b>1.7</b>
Sep	5.1	6.7	<b>2.0</b>	1.1	0.0	<b>0.5</b>	-0.7	-0.9	<b>-0.7</b>	5.5	5.8	<b>1.9</b>
Oct	5.0	6.5	<b>1.5</b>	0.7	-0.3	<b>0.1</b>	-0.5	-0.5	<b>-0.8</b>	5.3	5.7	<b>0.8</b>
Nov	6.2	7.3	<b>0.6</b>	0.1	-0.7	<b>-0.5</b>	-0.3	-0.9	<b>-0.8</b>	6.0	5.6	<b>-0.8</b>
Dec	7.4	5.7	<b>0.0</b>	0.4	-0.6	<b>0.1</b>	-0.2	-0.9	<b>-0.7</b>	7.6	4.2	<b>-0.6</b>
Jan	2.9	2.2	<b>-5.9</b>	0.5	-0.6	<b>0.1</b>	-0.2	-1.1	<b>-1.1</b>	3.2	0.5	<b>-6.9</b>
Feb	2.9	2.3	<b>-6.2</b>	0.4	-0.7	<b>0.3</b>	-0.6	-1.6	<b>-1.5</b>	2.8	0.1	<b>-7.4</b>
Mar	4.3	4.5		1.7	0.2		-0.2	-1.4		5.7	3.4	

Note: Figures may not sum precisely because of rounding.

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**Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS**

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88
Apr	1.1	1.3	<b>2.1</b>	0.8	0.7	<b>0.5</b>	-0.2	-0.1	<b>-0.4</b>	1.8	1.9	<b>2.2</b>
May	2.5	3.0	<b>2.9</b>	0.8	0.4	<b>0.1</b>	-0.4	-0.5	<b>-0.4</b>	2.9	2.9	<b>2.6</b>
Jun	4.0	4.2	<b>4.1</b>	0.5	-0.1	<b>0.2</b>	-0.5	-0.7	<b>-0.5</b>	3.9	3.3	<b>3.8</b>
Jul	5.0	4.2	<b>4.3</b>	0.8	-0.1	<b>0.4</b>	-1.2	-1.1	<b>-0.8</b>	4.5	3.0	<b>3.9</b>
Aug	6.2	5.3	<b>5.7</b>	0.9	0.2	<b>0.2</b>	-1.2	-0.8	<b>-0.8</b>	5.9	4.7	<b>5.0</b>
Sep	6.8	7.8	<b>6.0</b>	1.1	0.0	<b>0.5</b>	-0.7	-0.9	<b>-0.7</b>	7.3	6.9	<b>5.9</b>
Oct	6.7	7.5	<b>4.8</b>	0.7	-0.3	<b>0.1</b>	-0.5	-0.5	<b>-0.8</b>	7.0	6.7	<b>4.2</b>
Nov	8.2	8.6	<b>5.5</b>	0.1	-0.7	<b>-0.5</b>	-0.3	-0.9	<b>-0.8</b>	7.9	7.0	<b>4.2</b>
Dec	9.7	8.9	<b>5.1</b>	0.4	-0.6	<b>0.1</b>	-0.2	-0.9	<b>-0.7</b>	9.9	7.4	<b>4.6</b>
Jan	5.1	5.5	<b>-0.9</b>	0.5	-0.6	<b>0.1</b>	-0.2	-1.1	<b>-1.1</b>	5.4	3.7	<b>-1.8</b>
Feb	5.2	6.0	<b>-1.1</b>	0.4	-0.7	<b>0.3</b>	-0.6	-1.6	<b>-1.5</b>	5.1	3.8	<b>-2.3</b>
Mar	7.0	9.0		1.7	0.2		-0.2	-1.4		8.4	7.8	

Note: Figures may not sum precisely because of rounding.

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(Until 11.30am 16 March 1988)

## SUMMARY OF LINE TO TAKE

PSBR in February provisionally net repayment of £0.5 billion. Excluding privatisation proceeds, PSBR for first 11 months of 1987-88 was net repayment of £2.3 billion, as compared with borrowing of £3.8 billion in same period of 1986-87.

NB: Budget PSBR forecast for 1987-88 as a whole is for net repayment of about £3 billion.

### 1. February PSBR

#### Background

City forecasts of February are in the range zero to net repayment of £0.5 billion, with the majority forecasting zero borrowing. In each of the two previous years, there were net repayments in February of £0.4 billion.

#### Line to take

In February net repayment of £0.5 billion, about the same as in each of the two previous years.

### 2. PSBR, April-February

#### Line to take

Excluding privatisation proceeds, PSBR in first 11 months of 1987-88 was net repayment of £2.3 billion, as compared with borrowing of £3.8 billion in same period of 1986-87. Local authorities borrowing, however, running at level higher than last year (see Q.12).

### 3. Estimated outturn for 1987-88 in 1988 FSBR too high?

No. February outturn fully consistent with net repayment of about £3 billion for whole year. Borrowing in March always high and some special factors boosting central government borrowing this year (see Q.4).

### 4. Borrowing in March

#### Background

Borrowing in March implied by cumulative outturn to February and FSBR estimated outturn for 1987-88 as a whole is £4.3 billion. Sectoral composition (which can be deduced from FSBR table 6.3) is:

	£ billion
CGBR(O)	3.0
LABR	1.2
PCBR	0.1
	<hr/>
PSBR	4.3

NB: See Annex A for historic data on March.

Known special factors boosting central government borrowing in March are: (i) cash payments (£0.3 billion), on redemption on 30 March, for capital uplift on 2 per cent Index Linked (1988) stock; (ii) higher than average national insurance benefit payments - from a long month (5 Thursdays - main payments day) and timing of Easter (some payments due over Easter holiday brought forward a week, into March). Neither of these factors applied in 1986 or 1987. (iii) No privatisation proceeds in March. Privatisation proceeds in March 1987 £0.7 billion, (but NB: offset by Rover).

NB: Treatment of indexed-linked gilts in PSBR and national accounts - see Financial Statistics Explanatory Handbook (1987 edition) page 40, paragraph on debt interest (attached at Annex B).

#### Line to take

Borrowing in March usually high. Figures for LABR and PCBR in March implied by FSBR in line (allowing for inflation) with March average for previous five years. Implied central government own account borrowing higher than past average partly due to some special factors.

### 5. February outturn known when Budget judgement formed?

#### Line to take

Budget judgement not dependent on borrowing in a single month. A provisional February outturn figure was taken account of in the FSBR.

### 6. Privatisation proceeds in 1987-88

#### Background

Privatisation proceeds so far this year £5.1 billion, compared with £3.7 billion in same period last year. 1988 FSBR figure for 1987-88 as a whole £5 billion. Costs of privatisations offset the gross privatisation proceeds, so quite feasible that total for year as whole could be slightly lower than cumulative total to end-February. No further instalments from earlier privatisations scheduled for the remainder of 1987-88. No (gross) privatisation proceeds in March, but there may be small costs.

Line to take

Net privatisation proceeds in February were close to zero.

**7. Consolidated Fund Revenues**

Background

1987 FSBR forecast  $5\frac{3}{4}$  per cent increase in Consolidated Fund revenues in 1987-88. 1988 FSBR implies estimated outturn for 1987-88  $10\frac{3}{4}$  per cent higher than 1986-87. Press notice shows that Consolidated Fund (CF) revenues in first eleven months of 1987-88 were  $11\frac{1}{2}$  per cent higher than in the same period last year, comprising 13 per cent increase in Inland Revenue receipts (see Q.8), 8 per cent increase in Customs and Excise receipts (see Q.9), and 19 per cent in "other revenues". "Other revenues" include privatisation proceeds when they are transferred into Consolidated Fund - these amounts may differ from total privatisation proceeds given in table 5 of press notice. Proceeds received by HMG are usually transferred to Consolidated Fund with a lag.

NB Full details of Consolidated Fund revenues in Table 6B.3 in 1988 FSBR.

Line to take

Consolidated Fund revenues in April to February £113.3 billion,  $11\frac{1}{2}$  per cent up on same period last year. Includes some privatisation proceeds. Excluding privatisation proceeds revenues up by  $10\frac{3}{4}$  per cent. Fully consistent with estimated outturn for 1987-88 in FSBR.

**8. Inland Revenue Receipts**

Background

1987 FSBR forecast  $7\frac{1}{2}$  per cent increase in IR revenues in 1987-88. 1988 FSBR puts increase at  $12\frac{1}{2}$  per cent. Total for April-February in press notice 13 per cent up on same period last year.

Line to take

Receipts in April-February £59.6 billion, 13 per cent up on same period last year. Fully consistent with estimated outturn for 1987-88 in 1988 FSBR.

**9. Customs and Excise Receipts**

Background

1987 FSBR forecast  $6\frac{1}{2}$  per cent rise in Customs and Excise receipts in 1987-88. 1988 FSBR puts increase at  $8\frac{3}{4}$  per cent. Total for April-February in press notice £41.0 billion 8 per cent up on same period last year.

Line to take

Receipts in April-February £41.0 billion, 8 per cent up on same period last year. Fully consistent with estimated outturn for 1987-88 in 1988 FSBR.

**10. Supply Expenditure**

Background

1987 FSBR gave a figure for provision for supply in 1987-88 but not a forecast of outturn because public expenditure Reserve was not allocated to individual components of expenditure, (but public expenditure total used in PSBR forecast assumed that the Reserve was fully spent). 1988 FSBR gives estimated outturn, for supply in 1987-88 of £105.3 billion, a 3 $\frac{3}{4}$  per cent increase on 1986-87.

Line to take

Provisional outturn for supply expenditure in February £8.8 billion. Total April-February 1987-88 (provisional £94.5 billion) up 4 per cent on same period last year. Excluding advance contributions to EC Budget paid from supply in 1986-87, increase is 4 $\frac{1}{2}$  per cent.

**11. Central Government Borrowing**

Background

CG own account borrowing in February, surplus of £0.3 billion. Total for April-February, a surplus of £6.2 billion (1986-87, borrowing of £2.3 billion). Privatisation proceeds, April-February, £5.1 billion (1986-87, £3.7 billion). 1988 FSBR gives estimated outturn for central government own account borrowing of minus £3.2 billion in 1987-88.

Line to take

Excluding privatisation proceeds, CG own account borrowing over April to February lower by £7.2 billion than same period last year.

**12. Local Authorities**

Background

LABR (provisionally) £0.2 billion in February. Local authorities recorded borrowing of £0.3 billion during first eleven months of 1987-88. (Surplus of £0.7 billion for same period in 1986-87). 1988 Budget forecast for LABR in 1987-88 is £1.5 billion.

Line to take

LABR for first eleven months of 1987-88 around £1 billion higher than for same period in previous year.

**13. Public Corporations**

Background

PCBR (provisionally) a surplus of £0.4 billion in February. Surplus of £1.5 billion over April to February. (Surplus of £1.6 billion, April-February, 1986-87, but aggregate then included BGC, for most of year, and BA). 1988 Budget estimated outturn for PCBR in 1987-88 is minus £1.4 billion.

Line to take

PCBR so far in 1987-88 little different from last year.

**14. Effect of ending Sale and leaseback on LABR?**

Background

Loophole whereby small number of local authorities increased expenditure by selling assets and leasing them back closed on 11th March.

Line to take

Sale and leaseback deals had a negligible effect on borrowing to date. Forecast assumes no such deals in the future.

**15. Revisions to last month's estimates**

Background

No change to April-January PSBR from last month's Press Notice. But within unchanged total, CGBR(0) revised up by £0.1 billion offset by PCBR revised down by £0.1 billion.

Allen Ritchie (270-5029)  
PSF Division, HM Treasury



## INFORMATION SHEET FOR REFERENCE

Borrowing in March		£ million		
	PSBR	CGBR(O)	LABR	PCBR
Current prices				
-----				
1982-83	2,887	1,473	1,182	232
1983-84	2,261	1,446	1,060	-245
1984-85	2,395	1,474	1,071	-150
1985-86	2,970	1,382	1,224	364
1986-87	3,281	2,221	925	135
Average	2,759	1,599	1,092	67
1987-88 (forecast)	4,301	3,001	1,225	75
1987-88 prices				
-----				
1982-83	3,629	1,851	1,486	292
1983-84	2,723	1,742	1,277	-295
1984-85	2,749	1,692	1,229	-172
1985-86	3,247	1,511	1,338	398
1986-87	3,461	2,343	976	142
Average	3,162	1,828	1,261	73
1987-88 (forecast)	4,301	3,001	1,225	75

corporations i.e interest on loans, dividends on public dividend capital and the premium payable under the exchange cover scheme and (c) interest on loans to the private sector, dividends on shareholdings and the investment income of certain extra-budgetary funds received from outside the public sector. Includes debenture receipts by British Telecommunications (Statutory Corporation) from British Telecommunications to finance its excepted liabilities relating to deficiencies in the Post Office and British Telecommunications pension funds in respect of service before 1969.

*Miscellaneous current transfers* comprise receipts from driving licences, public service vehicle licence fees, passport fees, dog and gun licences, and fines and penalties in Magistrates and Scottish courts.

*Imputed charge for consumption of non-trading capital.* The provision of non-trading activities requires the use of capital assets. The amortisation of these assets is charged to current expenditure as capital consumption and generates an equal notional receipt.

### Current account expenditure

*Final consumption* relates to non-trading activities, and consists of payments for the service of employees, capital consumption, and purchases of goods and services other than purchases of fixed assets and stocks. For certain items cash payments do not accurately represent the expenditure being incurred, since they are subject to either random fluctuations of timing (e.g. military defence purchases of goods and services) or periodic payments (e.g. rates on government property) and are likely to be inconsistent with the transactions recorded by other sectors. The method of dealing with this problem is to redistribute the cash figures over the financial year generally assuming a smooth trend of expenditure during the year.

*Subsidies* are payments to a producer or trader having the effect of reducing selling prices to final buyers. For consistency with the accounts of other sectors, certain subsidies are recorded on an accruals basis. It also includes receipts and payments from the monetary sector of any excess income arising from its fixed rate credit scheme lending; this is recorded on an accrued basis.

*National insurance benefits* represent current grants to the personal sector but exclude payments to non-residents which are treated as current grants paid abroad. For 1973, 1974 and 1979 onwards these benefits include the bulk of Christmas bonuses paid to pensioners.

*Other current grants to personal sector.* The figures included for rent rebates are the payments made from the housing revenue accounts of local authorities. The difference between these figures and the payments made by central government into the accounts is included within *accruals adjustments* in the central government account. All the Christmas bonuses paid to pensioners for 1972, 1977 and 1978 are included.

*Debt interest* relates to central government debt held by other sectors. The payments include those made to local authorities and public corporations arising from guaranteeing interest payments on borrowing under the exchange cover schemes; interest paid on public corporation's

deposits; from September 1981 the indexed additions to principal of index-linked gilts which are offset by *accruals adjustments*. Includes payments to the Post Office and British Telecommunications pension funds by the British Telecommunications (Statutory Corporation) of interest received by them relating to deficiencies in the pension fund in respect of service before 1969.

### Table 3.2

#### Capital account

This table shows non-financial capital receipts and expenditure leading to the balance, financial surplus or deficit. The receipts consist of:

*Current surplus* brought forward from the current account.

*Taxes on capital.* The main items are death duties and taxes on capital gains, and in 1981 and 1982, the special tax on banking deposits.

*Other capital receipts* comprise mainly receipts from certain public corporations on disposal of assets.

Capital account payments comprise:

*Gross domestic fixed capital formation* is distinguished from final consumption in that it creates physical assets which will provide services in the future.

*Increase in value of stocks* including trading bodies, mainly the net cost of purchases by the Intervention Board for Agricultural Produce, and emergency and strategic stocks.

*Capital transfers* to private sector, local authorities, public corporations and to overseas.

### Table 3.3

#### Financial account and balancing item

*Accruals adjustments.* These are the adjustments made to the central government cash figures of receipts and expenditure for consistency with the basis on which the transactions are recorded in other sectors. Accruals series are converted to a cash basis by subtracting the accruals adjustment. The accruals adjustments are shown separately classified as financial liabilities or assets as appropriate.

*Transactions concerning certain public sector pension schemes* are mainly the net receipts of total pension contributions less pensions actually paid in respect of notionally funded pension schemes. They include notional payment in respect of employers' contributions under the Pensions Increase Act for teachers and National Health Service workers. In table 1.3 they are shown under *life assurance and pension funds*.

*Other identified financial liabilities (net),* which less the balancing item was formerly *miscellaneous financial receipts*. Also included are transactions with BNOC in connection with its advance sales of oil, deposits into Courts Funds, and compensation payments relating to the transfer of fixed assets to the National Health Service from local authorities (see notes to table 4.3). The difference between accrued military defence purchase and cash payments are included as

*BF 16/3*

*[Handwritten initials]*

From: COLIN MOWL  
15 March 1988

CHANCELLOR ✓

Copy with PPS letter, attached, for:

Mr Gray - No. 10

*[Handwritten signature]*

cc List A

List B (distributed at 11.30am, 16 March)

Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Sedgwick  
Mr Peretz  
Mr Odling-Smee  
Mr Watts  
Mrs Todd  
Mr Ritchie  
Miss Chapman

Chief Secretary  
Financial Secretary  
Paymaster General  
Mr J Anson  
Mr Moore  
Mr Culpin  
Mr Turnbull  
Mrs Brown  
Mr Bottrill  
Mrs Butler  
Mr R I G Allen

Mr Grice  
Miss O'Mara  
Mr Richardson  
Mr A Hudson  
Mr Franklin  
Mrs Ryding  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Calder - IR  
Mr Allen - C and E

**MONTHLY NOTE ON THE PSBR**

I attach a report on the PSBR outturn for February, and an estimated outturn for 1987-88 as a whole. The February outturn will be published by press notice at 11.30am on Wednesday 16 March.

*Colin Mowl*

COLIN MOWL

**PUBLIC SECTOR BORROWING**

Summary

- The PSBR in February is provisionally estimated as a net repayment of £0.5 billion.
- The PSBR for the first eleven months of 1987-88, a net repayment of £7.4 billion, is £7.3 billion below the 1987 Budget profile, most of which is accounted for by lower central government own account borrowing.
- Excluding privatisation proceeds the PSBR for April to February is a net repayment of £2.3 billion. Excluding privatisation proceeds the April to February outturn is about £6 billion lower than the corresponding period last year and about £7¼ billion below the Budget profile.
- An estimated 1987-88 outturn of a net repayment of £3.1 billion is published in the 1988 FSR.

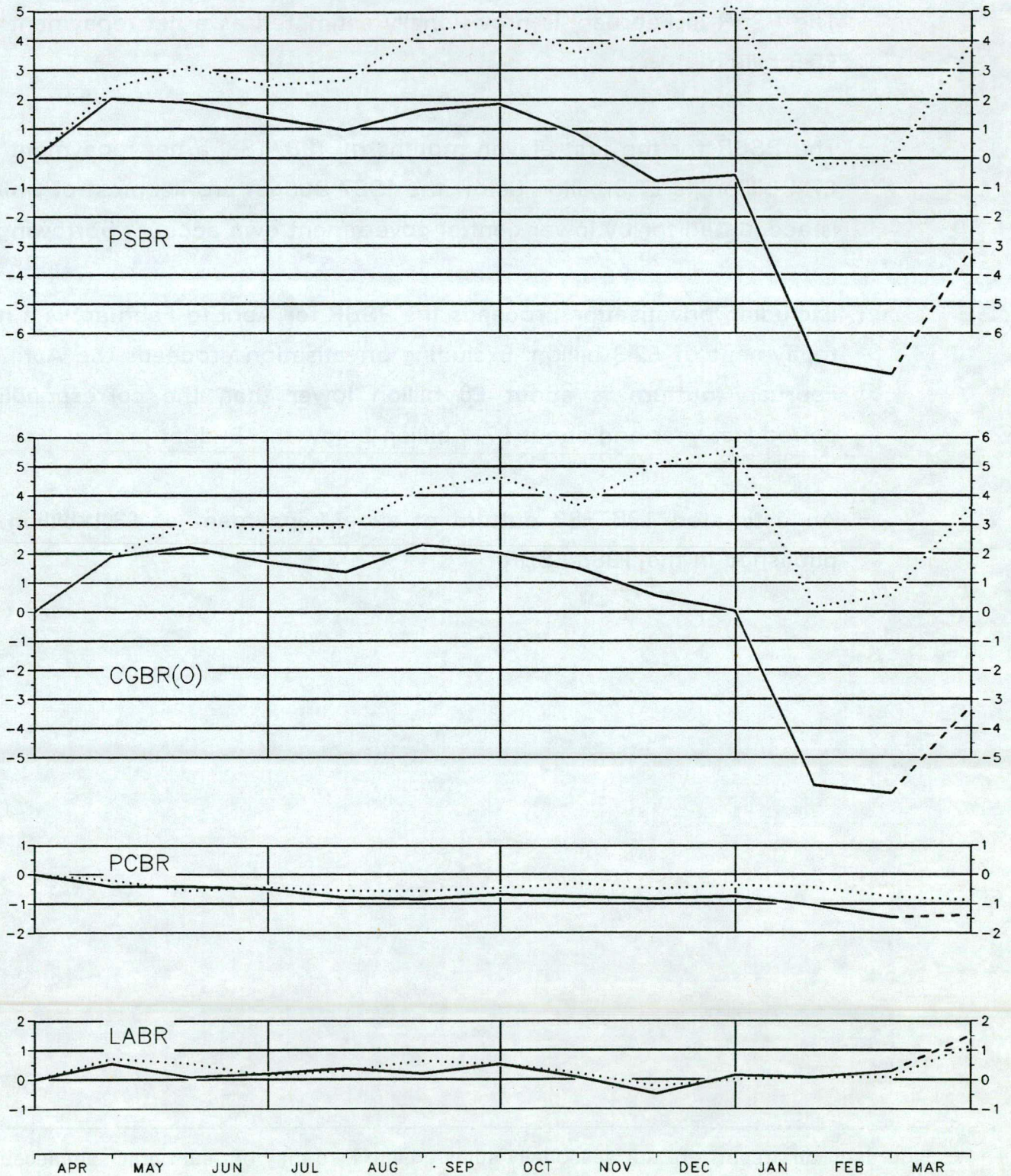
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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : 1987-88: Comparisons with 1987 Budget profiles**

£ billion cumulative

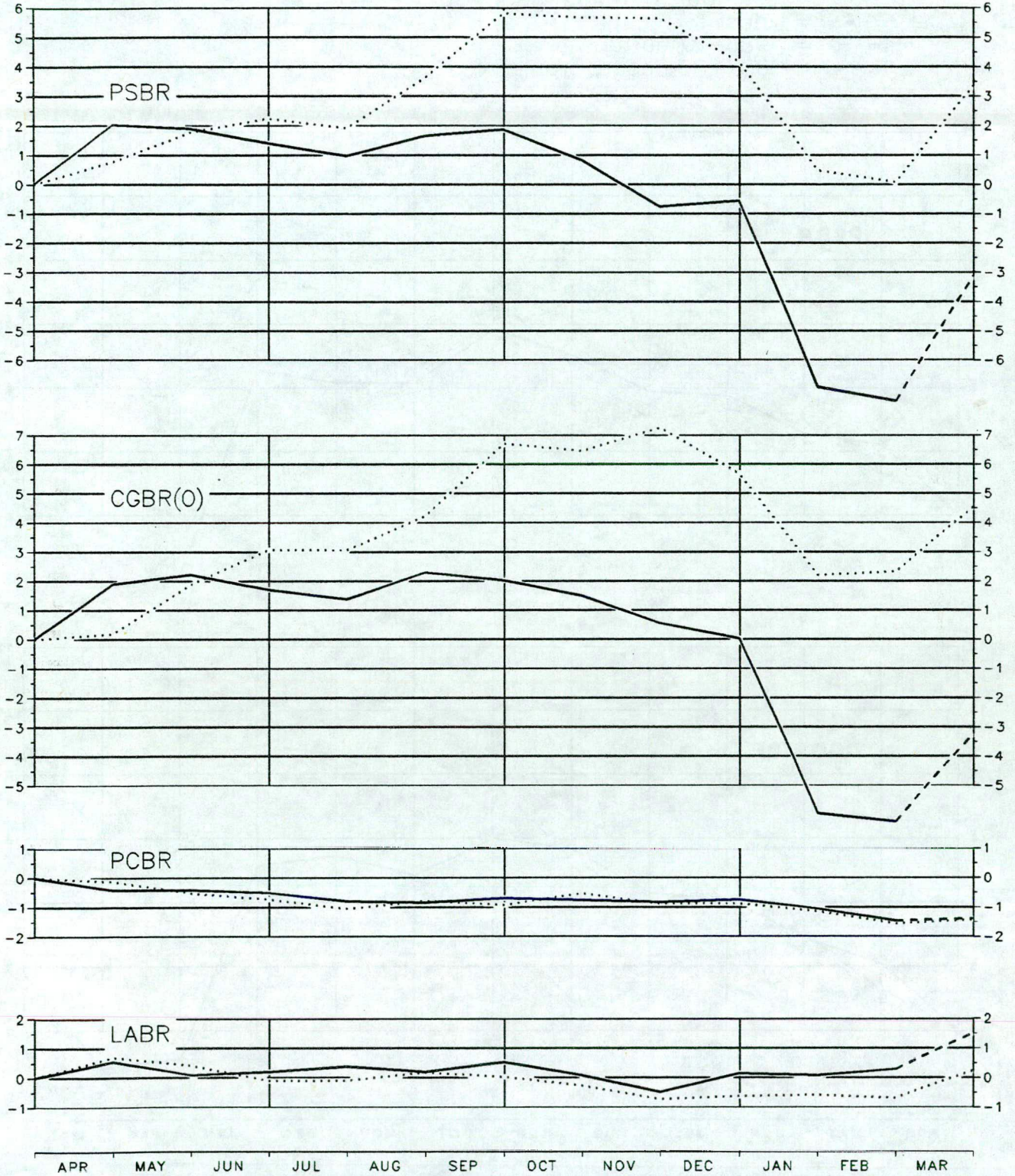
- = Estimated outturn in 1987-88
- - - = Latest forecasts
- ..... = Budget profile



**Chart 2: 1987-88: Comparisons with outturns for 1986-87**

£ billion cumulative

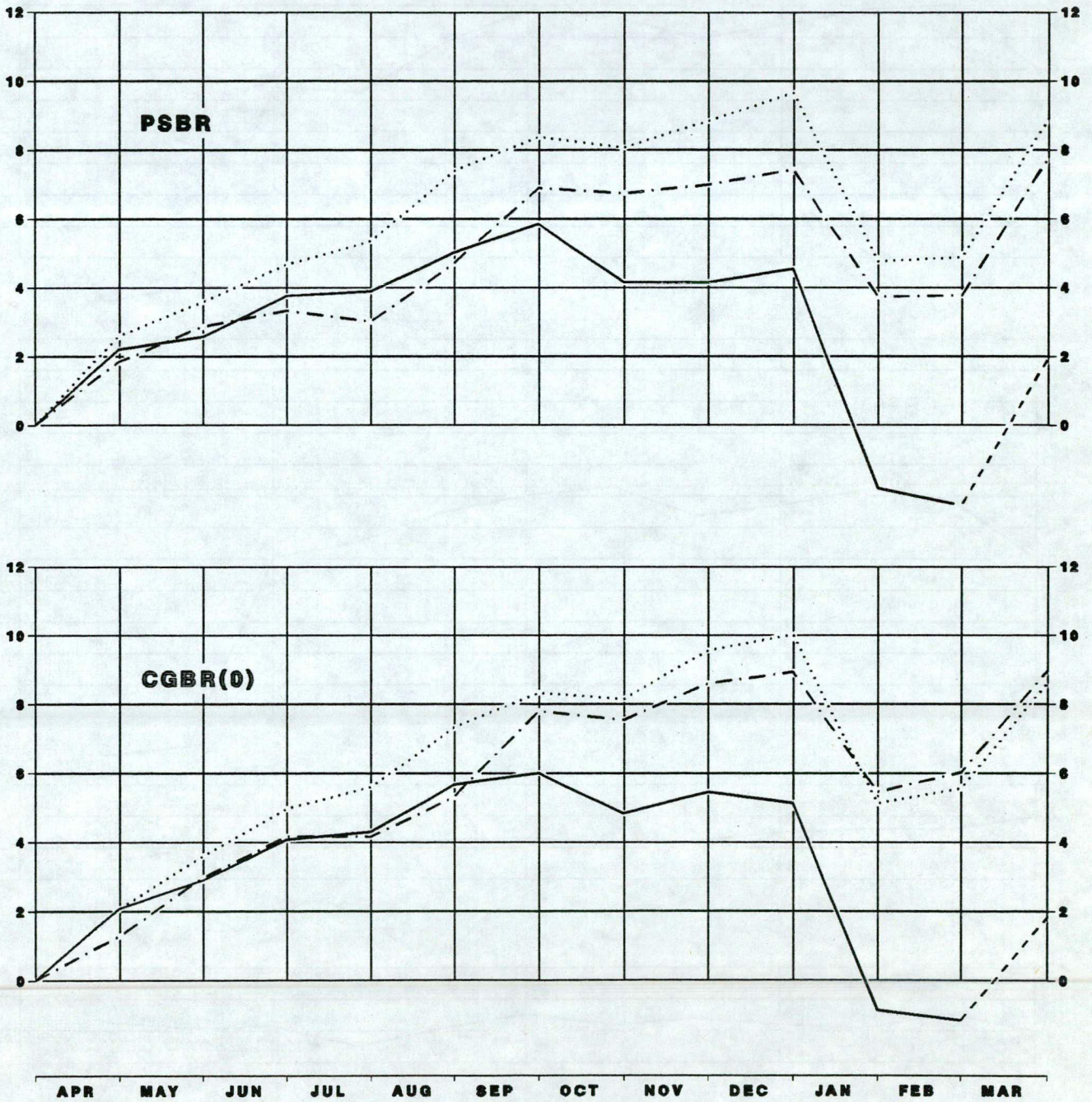
- = Estimated outturn in 1987-88
- - - = Latest forecasts
- ..... = 1986-87 outturn



**Chart 3: Comparisons excluding privatisation proceeds**

£ billion cumulative

- = Estimated outturn in 1987-88
- - - = Latest forecasts
- · - = 1986-87 outturn
- ..... = 1987-88 Budget profiles



**Borrowing in February**

(Outturn)

1. The provisional estimate of the PSBR in February is a net repayment of £0.5 billion, as shown in the table below.

**Table 1: February 1988 borrowing requirements**

	£ billion			
	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Outturn	-0.5	-0.3	0.2	-0.4

2. The surplus on central government's own account was £0.3 billion. This compares with borrowing of £0.1 billion in February 1987, and zero borrowing in February 1986.

3. The Local authorities' borrowing requirement (LABR) in February, was £0.2 billion, somewhat higher than in the two previous years, but lower than the year before that.

4. The Public corporations' borrowing requirement (PCBR) in February is provisionally a net repayment of £0.4 billion. The February PCBR is broadly in line with the last two year's figures.

**April to February**

5. The cumulative PSBR for the first eleven months of 1987-88 is £7.3 billion below 1987 the Budget profile (see chart 1 and Table 2) and £7.5 billion below the first eleven months of 1986-87. Excluding privatisation proceeds the PSBR for April to February is a net repayment of £2.3 billion. Excluding privatisation proceeds the PSBR so far this year is £7.2



billion below the 1987 Budget profile and £6 billion lower than the equivalent period last year.

**Table 2: Total April–February borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	-0.1	0.6	0.1	-0.8
Outturn	-7.4	-6.2	0.3	-1.5
Difference	-7.3	-6.8	0.2	-0.7

6. In April to February the central government's own account showed cumulatively a net repayment of £6.2 billion compared with borrowing of £0.6 billion in the 1987 Budget profile. Two thirds of the undershoot is the result of higher receipts and one third the result of lower expenditure. Table 3 shows where differences on individual components have occurred.

**Table 3: CGBR(O) April – February: Differences from Budget profile**

	£ billion	percentage difference
<b>Receipts</b>		
Inland Revenue	+2.8	+5.0
Customs and Excise	+0.7	+1.7
NICs	+0.4	+1.7
Privatisation proceeds	+0.1	+2.0
Interest and dividends	+0.2	+2.5
Other receipts	+0.4	+13.2
<b>Total receipts</b>	<b>+4.7</b>	<b>+3.4</b>
<b>Expenditure</b>		

## CONFIDENTIAL AND PERSONAL

Interest payments	-0.3	-1.7
Departmental expenditure <sup>(1)</sup>	-1.9	-1.5
<b>Total expenditure</b>	<b>-2.1</b>	<b>-1.6</b>
<b><u>Net effect on CGBR(O)</u></b>	<b>-6.8</b>	

---

<sup>(1)</sup> on a cash basis, net of certain receipts and on-lending

### 7. The main factors reducing borrowing are:

- higher Inland Revenue receipts. Income tax is £1.2 billion higher than in the 1987 Budget profile, with higher PAYE partly offset by lower than expected other income tax. Corporation Tax is £0.6 billion higher; of this £0.2 billion is ACT and £0.4 billion is MCT on capital gains (scored as part of capital taxes in the national accounts). MCT excluding tax on gains has turned out in line with the 1987 Budget forecast. PRT and stamp duties are about £0.3 and £0.4 billion respectively higher than forecast in the 1987 FSBP.
- higher Customs and Excise receipts, mainly due to higher VAT (£0.8 billion). Higher than expected Keith effects may have contributed £0.2 billion to the higher than expected VAT, but the main explanation is probably higher consumer spending on goods and services subject to VAT. Other Customs and Excise duties are slightly lower than forecast at Budget time.
- higher national insurance contributions.
- higher other receipts, about half of which is due to an increase in the balances held on behalf of the European Community.
- A shortfall on departmental expenditure (measured on a cash basis) of about £1.9 billion. This is not fully reflected in expenditure returns by departments (the APEX returns), which show supply expenditure £1.2 billion below budget profile. However, There are definitional and timing differences between the APEX and cash measurements. On the Apex measure the main programmes which are below profile are defence, overseas aid, employment, social security and grants to British Rail. The main programmes above profile are ECGD's trading account (due

CONFIDENTIAL AND PERSONAL

to delays in the re-financing programme) and health.

8. The local authority borrowing requirement in April to February is £0.3 billion, £0.2 billion above the 1987 Budget profile and £1.0 billion higher than April to February in 1986-87.

9. The cumulative PCBR for the first eleven months of 1987-88 is a net repayment of £1.5 billion, compared to a 1987 Budget forecast of a net repayment of £0.8 billion. Table 4 shows cumulative borrowing to February for the PCBR and selected public corporations, excluding those privatised and reclassified since April 1986. Borrowing estimates for individual corporations are derived from their own returns, and are not fully consistent with the aggregate PCBR estimates. The Electricity Council, British Steel, British Coal, the Post Office, Water and "other" public corporations have all borrowed less than last year and less than was forecast at Budget time.

**Table 4: Public Corporations' borrowing April-February**

	£million (-indicates lower borrowing)	
	Difference from 1986-87	Difference from Budget profile <sup>+</sup>
Coal	-180*	-210*
Electricity	-290	-270
British Steel	-250*	-220*
Post Office	-250*	-260*
Water	-230	-120
Other NIs	-330*	-60*
Other PCs	-260*	-350*
PCBR	-1010**	-600**

\*No February figure yet available figures cover April- January only

\*\*Excluding industries privatised during 1986-87 and 1987-88




<sup>+</sup>components do not sum to total difference in PCBR, because of incomplete information on borrowing in February.

**1987-88**

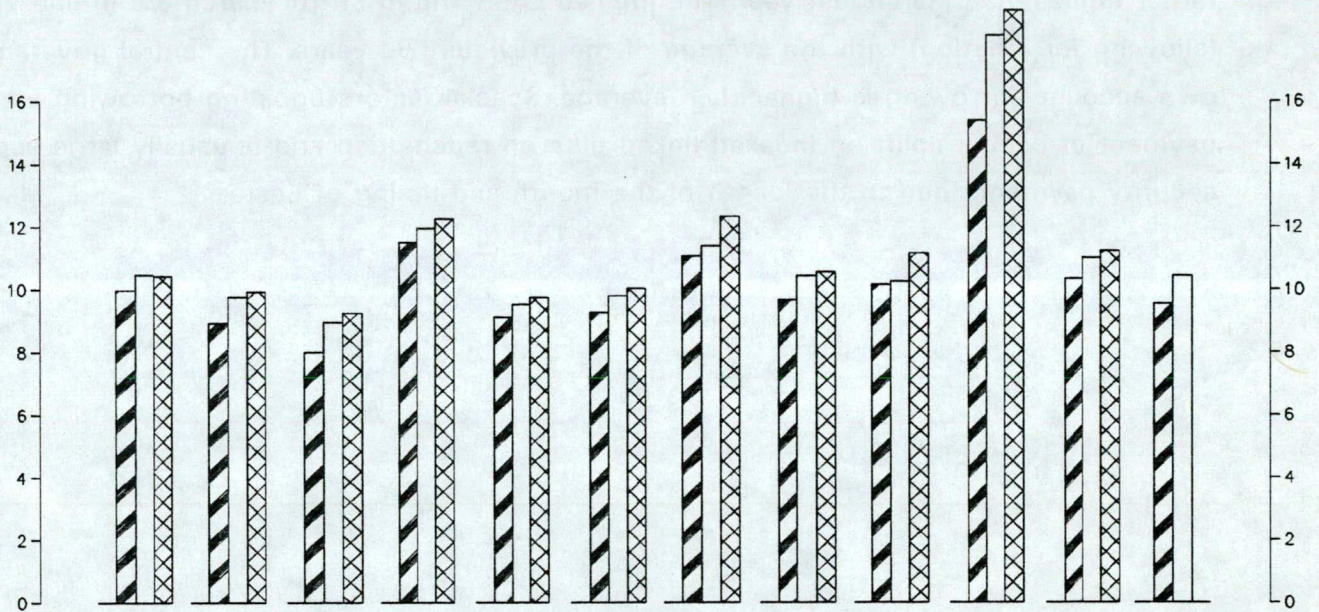
10. The estimated outturn for the PSBR for 1987-88 as a whole as published in the 1988 FSBR is a net repayment of around £3 billion. This implies public sector borrowing in March of £4.3 billion. Borrowing in March always high. The forecast is however for borrowing rather higher than March last year. The implied LABR and PCBR for March are in line (allowing for inflation) with the average of the previous five years. The central government own account borrowing is higher than average. Special factors boosting borrowing are the payment of capital uplift on indexed linked gilts on redemption and unusually large social security payments due to the length of the month and timing of Easter.

**Chart 4: Components of central government receipts and expenditure**

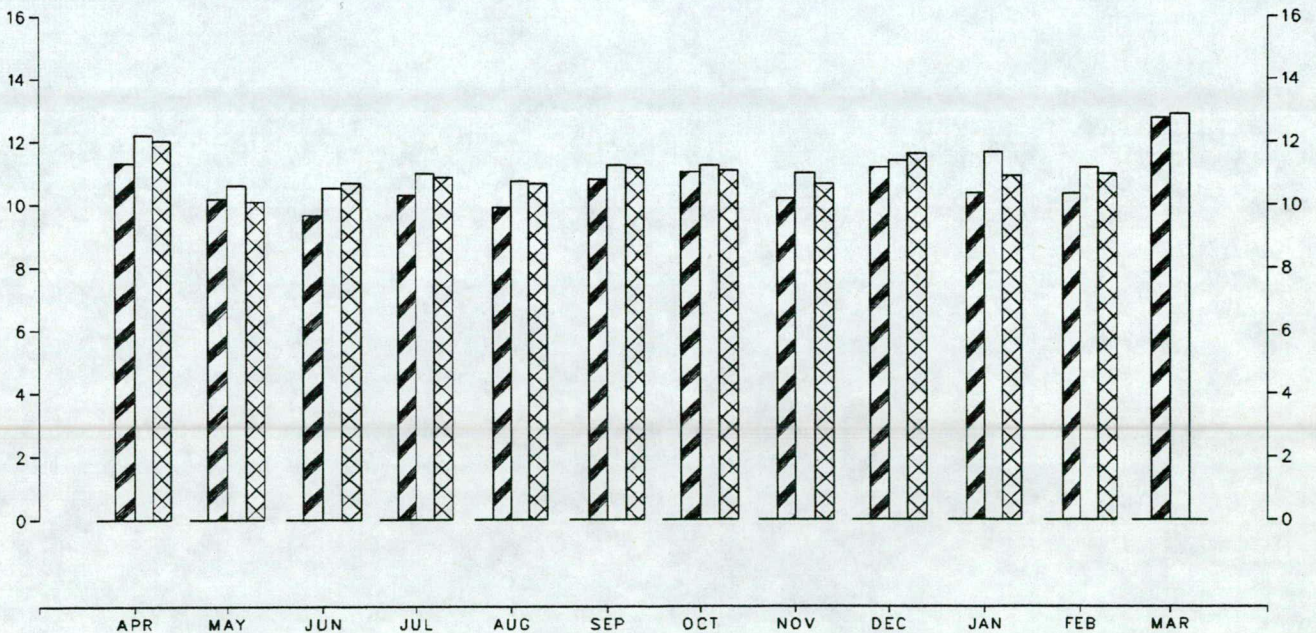
£ billion

-  = 1987-88: Outturns
-  = 1987-88 Budget forecasts
-  = Outturn in 1986-87

**(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS**



**(II) DEPARTMENTAL EXPENDITURE**



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**Table 5: PSBR for 1987-88 - comparisons with 1986-87 and 1987 Budget profile**

£ billion

	1986-87	1987-88		Differences from	
	Outturn	Budget profile	Latest update <sup>(1)</sup>	1986-87 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	0.8	2.4	2.0	1.3	-0.4
May	1.0	0.7	-0.1	-1.1	-0.8
Jun	0.5	-0.6	-0.5	-1.0	0.1
Q2	2.2	2.5	1.4	-0.8	-1.1
Jul	-0.3	0.2	-0.4	-0.1	-0.6
Aug	1.7	1.6	0.7	-1.0	-0.9
Sep	2.2	0.4	0.2	-2.0	-0.2
Q3	3.6	2.2	0.5	-3.1	-1.7
Oct	-0.2	-1.1	-1.0	-0.9	0.1
Nov	-	0.8	-1.6	-1.6	-2.4
Dec	-1.5	0.8	0.2	1.7	-0.6
Q4	-1.6	0.5	-2.4	-0.8	-2.9
Jan	-3.7	-5.4	-6.4	-2.7	-1.0
Feb	-0.4	0.1	-0.5	-0.1	-0.6
Mar	3.3	4.0	4.3	1.0	0.3
Cumulative					
Apr	0.8	2.4	2.0	1.3	-0.4
May	1.8	3.1	1.9	0.1	-1.2
Jun	2.2	2.5	1.4	-0.8	-1.1
Jul	1.9	2.7	1.0	-1.0	-1.7
Aug	3.6	4.3	1.7	-2.0	-2.6
Sep	5.8	4.7	1.9	-3.9	-2.8
Oct	5.7	3.6	0.8	-4.8	-2.8
Nov	5.6	4.4	-0.8	-6.4	-5.1
Dec	4.2	5.2	-0.6	-4.7	-5.8
Jan	0.5	-0.2	-6.9	-7.4	-6.7
Feb	0.1	-0.1	-7.4	-7.5	-7.3
Mar	3.4	3.9	-3.1	-6.5	-7.0

<sup>(1)</sup>Figures for April - February are outturns

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**Table 6: Borrowing requirement monthly profiles April–March, 1987–88**  
(Budget profiles in italics for comparison) £ billion

	PSBR		CGBR(O)		LABR		PCBR	
Apr	2.0	<i>2.4</i>	1.9	<i>1.9</i>	0.5	<i>0.7</i>	-0.4	<i>-0.2</i>
May	-0.1	<i>0.7</i>	0.3	<i>1.2</i>	-0.5	<i>-0.2</i>	-	<i>-0.4</i>
Jun	-0.5	<i>-0.6</i>	-0.5	<i>-0.3</i>	0.1	<i>-0.4</i>	-0.1	<i>0.1</i>
Jul	-0.4	<i>0.2</i>	-0.3	<i>0.1</i>	0.2	<i>0.2</i>	-0.3	<i>-0.1</i>
Aug	0.7	<i>1.6</i>	0.9	<i>1.3</i>	-0.2	<i>0.3</i>	-0.1	<i>-</i>
Sep	0.2	<i>0.4</i>	-0.3	<i>0.4</i>	0.3	<i>-0.1</i>	0.2	<i>0.1</i>
Oct	-1.0	<i>-1.1</i>	-0.5	<i>-1.0</i>	-0.4	<i>-0.3</i>	-0.1	<i>0.2</i>
Nov	-1.6	<i>0.8</i>	-0.9	<i>1.4</i>	-0.6	<i>-0.5</i>	-0.1	<i>-0.2</i>
Dec	0.2	<i>0.8</i>	-0.5	<i>0.5</i>	0.6	<i>0.2</i>	0.1	<i>0.1</i>
Jan	-6.4	<i>-5.4</i>	-6.0	<i>-5.4</i>	-0.1	<i>0.1</i>	-0.3	<i>-0.1</i>
Feb	-0.5	<i>0.1</i>	-0.3	<i>0.4</i>	0.2	<i>-</i>	-0.4	<i>-0.3</i>
Mar	4.3	<i>4.0</i>	3.0	<i>3.0</i>	1.2	<i>1.1</i>	0.1	<i>-0.1</i>
<b>Cumulative</b>								
Apr	2.0	<i>2.4</i>	1.9	<i>1.9</i>	0.5	<i>0.7</i>	-0.4	<i>-0.2</i>
May	1.9	<i>3.1</i>	2.2	<i>3.1</i>	0.1	<i>0.6</i>	-0.4	<i>-0.6</i>
Jun	1.4	<i>2.5</i>	1.7	<i>2.8</i>	0.2	<i>0.1</i>	-0.5	<i>-0.4</i>
Jul	1.0	<i>2.7</i>	1.4	<i>2.9</i>	0.4	<i>0.3</i>	-0.8	<i>-0.6</i>
Aug	1.7	<i>4.3</i>	2.3	<i>4.2</i>	0.2	<i>0.6</i>	-0.8	<i>-0.6</i>
Sep	1.9	<i>4.7</i>	2.0	<i>4.6</i>	0.5	<i>0.5</i>	-0.7	<i>-0.5</i>
Oct	0.8	<i>3.6</i>	1.5	<i>3.7</i>	0.1	<i>0.2</i>	-0.8	<i>-0.3</i>
Nov	-0.8	<i>4.4</i>	0.6	<i>5.1</i>	-0.5	<i>-0.2</i>	-0.8	<i>-0.5</i>
Dec	-0.6	<i>5.2</i>	-	<i>5.5</i>	0.1	<i>-</i>	-0.7	<i>-0.4</i>
Jan	-6.9	<i>-0.2</i>	-5.9	<i>0.2</i>	0.1	<i>0.1</i>	-1.1	<i>-0.4</i>
Feb	-7.4	<i>-0.1</i>	-6.2	<i>0.6</i>	0.3	<i>0.1</i>	-1.5	<i>-0.8</i>
Mar	-3.1	<i>3.9</i>	-3.2	<i>3.6</i>	1.5	<i>1.2</i>	-1.4	<i>-0.9</i>
	<b>Excluding privatisation proceeds</b>				<b>Memo item:</b>			
	<b>PSBR</b>		<b>CGBR(O)</b>		<b>privatisation proceeds</b>			
Apr	2.2	<i>2.6</i>	2.1	<i>2.1</i>	0.2	<i>0.2</i>		
May	0.4	<i>1.0</i>	0.8	<i>1.5</i>	0.5	<i>0.3</i>		
Jun	1.2	<i>1.1</i>	1.2	<i>1.4</i>	1.7	<i>1.7</i>		
Jul	0.1	<i>0.7</i>	0.2	<i>0.6</i>	0.6	<i>0.5</i>		
Aug	1.1	<i>2.0</i>	1.4	<i>1.7</i>	0.4	<i>0.4</i>		
Sep	0.8	<i>1.0</i>	0.3	<i>1.0</i>	0.6	<i>0.6</i>		
Oct	-1.7	<i>-0.3</i>	-1.2	<i>-0.2</i>	-0.6	<i>0.8</i>		
Nov	-	<i>0.8</i>	0.6	<i>1.4</i>	1.6	<i>-</i>		
Dec	0.4	<i>0.8</i>	-0.3	<i>0.5</i>	0.2	<i>-</i>		
Jan	-6.4	<i>-4.9</i>	-6.0	<i>-4.9</i>	-	<i>0.5</i>		
Feb	-0.5	<i>0.1</i>	-0.3	<i>0.4</i>	-	<i>-</i>		
Mar	4.3	<i>4.0</i>	3.0	<i>3.1</i>	-	<i>-</i>		
<b>Cumulative</b>								
Apr	2.2	<i>2.6</i>	2.1	<i>2.1</i>	0.2	<i>0.2</i>		
May	2.6	<i>3.6</i>	2.9	<i>3.6</i>	0.7	<i>0.5</i>		
Jun	3.8	<i>4.7</i>	4.1	<i>5.0</i>	2.4	<i>2.2</i>		
Jul	3.9	<i>5.4</i>	4.3	<i>5.6</i>	2.9	<i>2.7</i>		
Aug	5.0	<i>7.4</i>	5.7	<i>7.3</i>	3.4	<i>3.1</i>		
Sep	5.9	<i>8.4</i>	6.0	<i>8.3</i>	4.0	<i>3.7</i>		
Oct	4.2	<i>8.1</i>	4.8	<i>8.2</i>	3.3	<i>4.5</i>		
Nov	4.2	<i>8.9</i>	5.5	<i>9.6</i>	4.9	<i>4.5</i>		
Dec	4.6	<i>9.7</i>	5.1	<i>10.0</i>	5.1	<i>4.5</i>		
Jan	-1.8	<i>4.8</i>	-0.9	<i>5.1</i>	5.1	<i>5.0</i>		
Feb	-2.3	<i>4.9</i>	-1.1	<i>5.6</i>	5.1	<i>5.0</i>		
Mar	1.9	<i>8.9</i>	1.8	<i>8.6</i>	5.0	<i>5.0</i>		

**CENTRAL GOVERNMENT TRANSACTIONS - CUMULATIVE  
DIFFERENCES FROM BUDGET PROFILES**

£ billion

	Difference in outturn April-February	
	£ billion	Percentage difference
<b><u>Receipts</u></b>		
Inland Revenue	2.8	5.0
Customs and Excise	0.7	1.7
National Insurance Contributions	0.4	1.7
Privatisation proceeds	0.1	2.0
Interest and dividends	0.2	2.5
Other receipts	0.4	13.2
<b>Total Receipts</b>	<b>4.7</b>	<b>3.4</b>
<b><u>Expenditure</u></b>		
Interest payments	-0.3	-1.7
Departmental expenditure (a)	-1.9	-1.5
<b>Total expenditure</b>	<b>-2.1</b>	<b>-1.6</b>
<b>CGBR(0)</b>	<b>-6.8</b>	<b>..</b>
<b>CGBR(0) excluding privatisation proceeds</b>	<b>-6.7</b>	<b>..</b>
On-lending to LAs	1.9	..
On-lending to PCs	-0.2	..
<b>CGBR</b>	<b>-5.1</b>	<b>..</b>

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure  
 - = lower receipts, and lower borrowing, lower expenditure



TABLE 9:

## CONSOLIDATED FUND REVENUES - % changes on year earlier

	FORECAST FOR 1987-88		APRIL 1987-FEBRUARY 1988		
	(i) FSBR(a)		(ii) FSBR		(iii) Outturn
1. Total Inland Revenue	7		7½		13
of which: Income Tax		3½		3½	8
Corporation Tax (d)		20½		21½	26½
North Sea taxes (c)		-16½		-11	1½
Other (Stamp Duties and Capital Taxes)		13½		15	26½
2. Customs and Excise	6½		6		8
of which: VAT		9		8½	12
Specific Duties		3		6	5
Other (e)		7½		-7½	-4
3. Vehicle Excise Duty	-½		3½		3½
4. Asset Sales	14		35½		38½
5. Other Consolidated Fund Revenue*	-16		-13½		5½
6. Timing Adjustment (f)	64½		-100		43
7. <b>TOTAL CONSOLIDATED FUND REVENUE</b>	5½		7½		11½
Memorandum Items:					
Non North Sea Taxes		7		7½	11
North Sea Oil Taxes and Royalties		-13½		-8½	2½

\* This includes oil royalties, EC refunds, coinage receipts and CFERs.

(a) using 1986-87 outturn as a base

(b) using 1986-87 outturn as a base

(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

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*This is a v. important issue. See in the pamphlet - must do for CST work.*

FROM: T J BURR  
23 March 1988

CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Phillips  
Mrs Case  
Mr Hawtin  
Mr Spackman  
Mr Turnbull  
Mr Gieve  
Mr Gilhooly  
Mr Fellgett  
Mr S Kelly  
Mrs Pugh  
Mrs Robinson  
Mr Cropper  
Mr Tyrie  
Mr Call

*Ch / I don't like 1st*

*para of draft, and might be better for CST to send? Or invite Mr Baker for a drink sometime?  
2. Do you want us to set in hand any initial work on update of 1984 Green Paper? mgnw 25/3*

**LONGER-TERM PUBLIC EXPENDITURE: TEACHER NUMBERS**

In response to Mr Anson's note of 2 February on longer-term public expenditure, you asked whether anything could be done to curb the number of teachers. Mr Gilmore let your office have an interim response in his minute of 25 February. This note provides fuller advice and suggests that you might wish to write to Mr Baker.

**Background**

2. The attached table shows the way in which pupil and teacher numbers have moved since pupil numbers peaked in the mid-1970s. It shows that since that peak, there has been a continuous decline in the number of school pupils, which is not expected to end until the beginning of the next decade. The decline over the whole period is well over 20 per cent. The table also shows that, after a lag, teacher numbers have also fallen continuously, and are only expected to level off at the turn of the decade. The decline, however, at just over 10 per cent from the 1978-79 peak, is less than half of the decline in pupil numbers. In consequence, the pupil:teacher ratio (PTR) has fallen from around 20 to 17. If it had been maintained at the level of the mid-1970s, the number of teachers would be some 55,000 less

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than it now is, and expenditure would be some £850 million a year less.

3. Over the next decade, the demographic position will be reversed. Pupil numbers are expected to rise by about 12 per cent between the trough in 1989-90 and the end of the century. If the 1989-90 PTR of 17 were maintained, that would imply an additional 50,000 <sup>teachers</sup> /by the end of the century at an additional cost of £750 million a year.

4. There will be strong pressures to permit this kind of increase. Although the decline in the PTR has been largely a matter of demography, a virtue has nevertheless been made of it. We have resisted references to "improvement" in the PTR, with some success. But DES do nothing to discourage portrayal of the low PTR as evidence that education is being given a higher priority, and even that standards are improving. There is of course a widespread political and public tendency to treat the PTR as an indicator of educational standards, in the sense that education is "better" with a lower PTR. There is in fact no evidence, or none that has been produced, to support the idea that smaller classes mean better performance.

5. DES would also argue that at least some of the reduction in the PTR has been needed in order to deliver the Government's policies for education, and in particular those set out in Sir Keith Joseph's White Paper "Better Schools". Similarly, they argue that subsequent policy developments, notably on in-service teacher training and the national curriculum, could be held to justify a further fall in the PTR to little more than 16 (although they have not proposed that as a basis for planning).

6. Against this background, there will be a good deal of pressure to avoid any increase in the PTR over the remainder of this century, and increase teacher numbers accordingly. This would represent a ratchet effect: less pupils do not mean correspondingly fewer teachers, but more pupils have to be matched by correspondingly more teachers.

7. There is however a serious demographic constraint on such thinking. While the number of schoolchildren is expected to rise through the 1990s, the number of school leavers will fall sharply until the mid-1990s. In consequence, 20 per cent of all young people with two or more A level passes would need to be recycled back into the school system as teachers by 1995 (as compared with 11 per cent in 1986) to maintain the PTR at 17. Such a percentage is not unprecedented: it was as high as 29 per cent (on a somewhat different basis) in 1970. But that was not at a period of such tightness in the labour market for young people as is in prospect for the mid-1990s.

#### Policy influences

8. As indicated in Mr Gilmore's note, there are two types of policy influence on teacher numbers:

(a) Policies of local education authorities (LEAs) on how many teachers to employ;

(b) Policies of DES on teacher training provision.

The Government has no direct control over the first of these. The pressures which it can exert are those of the local authority finance system. With education representing the largest single component of local authority expenditure, pressures of increased accountability through the community charge should have some effect. But there is no direct control.

9. Nevertheless, DES probably still exercise some influence on the policies of LEAs, if less than in the past. If for example their policy statements were to point towards an increase in the PTR, it would be at least marginally more likely to happen than would otherwise be the case.

10. Such influence is reinforced by (b) above. DES do have effective control of intakes to teacher training, on which they give guidance to the University Grants Committee for the university sector and which they prescribe for teacher training elsewhere. But that can only exert a gradual influence on the

size of the teaching force. The annual flow into teaching from initial training amounts at present to only 3 per cent of the teacher stock. Thus, <sup>a</sup>one third cut in teacher training intakes would at best only reduce teacher numbers by a cumulative 1 per cent a year; and some of that effect might be offset by, for example, LEAs attracting more married women back into teaching. Moreover teacher training intakes are now determined up to 1989, which means that the output of the substantial proportion of trainees on four year courses (as distinct from those on one year postgraduate courses) is fixed up to 1993.

### DES plans

11. During the latter part of last year, DES started to discuss with us at official level the question of teacher training intakes from 1990 onwards. We resisted the idea that holding on to a PTR of 17 should be an objective in its own right, in the absence of any evidence linking it to educational effectiveness. But these discussions had not progressed very far when DES dropped the attempt to formulate longer-term plans for teacher training intakes and teacher numbers in the 1990s, and said that they would instead be letting us have proposals for 1990 alone. Mr Baker had apparently concluded that he might not get colleagues' agreement to holding down the PTR, and that he did not want to have to defend increasing it at a time when his hands were already full with the Education Reform Bill.

12. DES now want to settle intakes for 1990 on an ad hoc basis, although they have not yet put proposals to us. They do not intend to revert to the longer-term position until later in the year. They have recently shown signs of arguing that PTRs are likely to rise anyway, for demographic reasons, and that there is therefore no need for the Government to incur unnecessary odium by adopting such a rise as a policy objective.

### Discussion

13. We doubt whether Mr Baker could readily be persuaded to go public at the present time on what for him is a difficult policy issue. In any case his immediate influence on teacher

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numbers is limited. But over the timescale of the next decade, DES policies on teacher supply could undoubtedly have some significant cumulative effect. They could also influence the thinking of many local authorities, especially if they were linked to prospective labour market conditions and presented in the context of a policy on the overall size of the teaching force.

14. DES, however, are not anxious to fall out with the educational establishment by starting to argue and plan for a "deterioration" in the PTR. Insofar as they have to do any planning, notably for teacher training, they wish to assume that the PTR will simply stay at its present low level. If there is any increase in the 1990s, it will be a result of demographic accident rather than of policy. We on the other hand are concerned that the increase in the PTR could well be small or non-existent unless the Government gives a lead; and that DES may be coming to the conclusion that their interests are best served by inaction.

15. We think that the DES posture, if maintained, is likely to mean that teacher numbers in the 1990s are higher than they need to be. Ideally, we would like to hold the number of teachers to no more than the present level through the 1990s as the numbers of school children increase, thus ratchetting the PTR back to the level of 10 years ago. There has been a substantial investment in teacher training, with the move to an all-graduate teaching force and considerable expansion of in-service teacher training. There has also been investment in new books and equipment, particularly in connection with the GCSE. There has been a substantial increase in teachers' pay. It is not unreasonable now to look for an increase in productivity.

### Conclusion

16. It would help us to further these aims in our discussions with DES if you were to register your interest with Mr Baker. This would influence the immediate issue of teacher training intakes in 1990; but beyond that the aim would not be an early public statement, which is not yet essential and which Mr Baker

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would be unlikely to see as a priority at the present time. Instead, the aim would be to make clear that the nettle of the threatened rise in teacher numbers in the 1990s must be grasped, and that it is not adequate to approach the next decade on the basis that the Government would be content for the PTR to be held at its present level. I attach a draft.



T J BURR

DRAFT LETTER

FROM: CHANCELLOR OF THE EXCHEQUER

TO : SECRETARY OF STATE FOR EDUCATION AND SCIENCE

TEACHER NUMBERS

9 I have recently had occasion to consider some of the longer-term issues which are likely to face us on public expenditure. The question of teacher numbers seemed to me to raise points which I could usefully put to you.

2. As I understand it, we will shortly be reaching the bottom of the demographic trough in the number of school children, after a fall which has continued for some 15 years. Teacher numbers have also fallen, but by only about half as much. In consequence, the pupil:teacher ratio has fallen significantly, from around 20:1 to 17:1.

3. Some of this fall has no doubt been attributable to "better schools" policies and to increased in-service training. But much of the fall has only occurred because the willingness of local education authorities to cut teacher numbers has simply not kept pace with the rapid decline in the number of pupils

4. That may to some extent have been inevitable. What is not inevitable is that maintaining the present historically low PTR should be allowed to become an objective in its own right as pupil numbers rise again through the coming decade. As far as I am aware there is no justification for thus targetting a particular level of PTR, and no clear evidence that small class sizes have much to do with educational effectiveness and



pupil achievement.

5. I recognise, of course, that it is local education authorities rather than your Department who decide how many teachers to employ. But your Department has considerable influence through its policies on teacher supply and training. It is also in a position to give a lead to local education authorities on appropriate standards of provision across the service. I know that your officials have been giving some initial thought over the past year to the question of teacher numbers in the 1990s.

6. As this work proceeds, and is discussed with officials here, I question whether it is right to be thinking in terms of much if any increase in teacher numbers from present levels. Even with prospective growth in pupil numbers, holding teacher numbers constant would still not take the PTR above levels experienced in the fairly recent past. Some of our policy initiatives, such as the national curriculum, may make some new demands on teachers. I do not see that as a reason for simply adding to the numbers. The work force in many areas of the economy is having to adjust to new demands. Indeed the substantial investment which there has been in a more highly trained teaching force, with better equipment and higher pay, ought to mean that we can look for significant increases in productivity which will absorb the effect of rising pupil numbers.

7. I would be interested to know your views on these points.

## MAINTAINED SCHOOL PUPIL AND TEACHER NUMBERS IN ENGLAND

Academic year	Pupils* thousands	Teachers*	Pupil:teacher ratio
1975-76	8534	431	19.8
1976-77	8530	433	19.7
1977-78	8458	436	19.4
1978-79	8335	441	18.9
1979-80	8191	438	18.7
1980-81	7979	429	18.6
1981-82	7770	420	18.5
1982-83	7524	415	18.1
1983-84	7345	411	17.9
1984-85	7202	405	17.8
1985-86	7074	403	17.6
1986-87	6955	402	17.3
1987-88	6825	400	17.1
1988-89	6742	397	17.0
1989-90	6700	395	17.0
1990-91	6708	395	17.0

\*Full time equivalents, excluding special schools. Teacher numbers are totals employed, including those on secondment and on training etc, so the pupil teacher ratio is not a direct measure of class size.

Source: Public Expenditure White Paper

cc:  
Chancellor  
FST  
EST  
PMG  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck

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*I have no ground  
with that, but there is  
a wide range of  
views both on all communi-  
an clear*

FROM: CHIEF SECRETARY

DATE: 23 MARCH 1988

PRIME MINISTER

A NEW PLANNING TOTAL

Mr Turnbull  
Mr Scholar  
HEGs  
Mr Odling-Smee  
Mr Sedgwick  
Mr Spackman  
Mr Potter

Mr Gieve  
Mrs R J Butler  
Mr Richardson  
Mr Perfect  
Mr G White  
Miss Walker  
Mr Kidman

*with  
has first.  
Was this?*

From time to time there have been suggestions that we should restructure the public expenditure planning total so that it includes the grant central government pays to local authorities and excludes the expenditure local authorities finance from their own resources rather than, as at present, including all local authority spending. This suggestion was made at the July Cabinet meeting on public expenditure last year, when the Chancellor indicated that it was a subject to which we were giving some thought.

2. The danger we have faced hitherto in making such a change is that it would inevitably be interpreted as a weakening of the Government's determination to restrain the growth of local authority spending. However, the introduction of the community charge and the national non-domestic rate provide an opportunity to re-examine the present definition of the planning total and its relationship with our objectives for public spending.

3. The attached paper discusses the case for making the change in that context. This would not imply any change in our underlying objective of reducing general government expenditure (which will continue to include local as well as central government spending) as a proportion of GDP. Inclusion of forward plans for grant in the planning total will help us break away from the framework in which we are always reacting to whatever level of spending local authorities decide upon.

4. There are a number of issues which will need to be considered. These include the way local authorities self-financed expenditure is shown in the individual chapters of the White

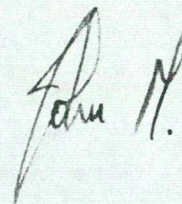
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Paper; the treatment of local authority borrowing and capital grants for housing and for other services; any implications for the territorial formulae; and the timetable for E(LA) and consultations with local authority associations.

5. Before committing ourselves to these proposals, we need to consider the implications with departments. Rather than inviting reactions from colleagues at this stage, I suggest that the Treasury sets in hand discussions at official level. I will then report further to colleagues with my recommendations.

6. There is an important caveat to be made. Although I believe that changing the planning total in the way suggested would not weaken our ability to restrain local authority spending, indeed it should buttress the other reforms that are being made, especially the introduction of the Community Charge, there is a danger that the proposal could be misunderstood if it were not explained properly. It would, for example, be damaging if local authorities felt, albeit wrongly, that there was a weakening in our resolve to restrain local spending and reduce the burden of taxation. If we do decide to go ahead, it would be essential, therefore, when the time comes to broach this with the outside world (possibly in the summer when the RSG for 1989-90 is announced and the local authority consultative machinery starts to look forward to the next round) that the presentation should be carefully made. In the meantime, consideration of the proposal should remain confidential within Government.

7. I am copying this minute and the attached paper to Cabinet colleagues and to Sir Robin Butler.



JOHN MAJOR

## A NEW PLANNING TOTAL

One of the characteristics of the way the Government in this country plans its expenditure is that it includes the spending of both central and local government in its planning total. Very few other industrial countries do this. For federal states such as Germany, the US or Canada this would be inappropriate; but even in other unitary states such as France or the Netherlands, the government makes plans only for central government expenditure.

2. There are understandable reasons why the Government makes and legislates for policies which may be implemented by either central or local government. Responsibility for education, roads and law and order is shared between the two. It is helpful in planning policy to draw together all the expenditure, irrespective of the level at which it is incurred.

3. The Government also has policies for the burden of taxation and the community charge will be just as much part of that burden as VAT. Finally, the Government has policies for the role and scope for the public sector as against the private sector and its share of national output.

4. While drawing all public sector spending together, either in aggregate or for individual departmental programmes, has a number of advantages, it also has disadvantages. Our present procedures lump together expenditure for which government has differing degrees of responsibility and thus blur the status of the various aggregates. If the planning total is exceeded, for example, it is not immediately clear whether responsibility for this lies with central or with local government.

5. A further disadvantage is that by counting the total expenditure of local authorities in the planning total, insufficient attention is paid to the grants which central government provide to local authorities (because they are transfers between parts of the public sector they do not count in the consolidated spending of the two sectors). Yet grant is extremely important - it is a major influence on what local authorities spend and it represents money which central government has to raise in taxes.

6. The "Paying for Local Government" reforms provide both an opportunity and a justification for rethinking our system. One of the objectives is to increase local accountability, ie to make it clear to local electorates when local spending rises whose responsibility this is, so that they can draw the appropriate conclusions. The present arrangements do not do this.

7. We see advantage in restructuring our planning of public spending on the following lines:

i. There would be no change to our underlying objectives for public spending, ie the aim of reducing public spending as a proportion of GDP would continue to be expressed in terms of general government expenditure (ie central plus local spending) as a proportion of GDP.

ii. But within general government expenditure the planning total would become the sum of central government's own expenditure, the grants it provides to local authorities, the permitted level of local authority borrowing for capital purposes, payments from national non-domestic rates and the external finance of public corporations, plus a reserve.

iii. The current expenditure which local authorities finance for themselves through the community charge and the capital spending financed from revenue contributions or use of receipts, would be outside the planning total but still within GGE as debt interest is now. The attached table shows how the accounts would look.

8. The new planning total would have a number of advantages:

i. It would comprise those elements for which central government has a direct responsibility and it would exclude that spending which local authorities decide for themselves.

ii. It would contain the grants paid to local authorities. These would have to be planned for 3 years ahead and not just one as at present. This would not only give local authorities a better basis on which to plan their finances,

but would make it clearer to the local electorate who was responsible for increases in local taxation. It would also create a baseline against which next year's discussion about grant would take place. It would help stop grant being determined by previous years' overspending.

9. There is one danger in adopting such a system. It could be interpreted as a decision by central government to give up its attempt to influence locally financed spending and to cut the local authorities free. This can be avoided if the change is made in the proper context. The proposals in the Local Government Bill will:

- i. establish a national framework for non-domestic rates;
- ii. increase pressures of accountability through the community charge.

To make the change in the context of these reforms will make it clear that the Government is still concerned about local authority spending. Continuing to express our objective in the MTFS in terms of general government expenditure (ie central and local) will also make it clear that the Government is still concerned about the level of taxation and borrowing for the whole public sector.

10. The logical time to make the change would be with effect from April 1990. This would imply that the 1989 Survey and RSG discussions would be conducted within the new framework and the 1989 Autumn Statement and 1990 PEWP would announce the results on the new basis. The precise timetable for RSG discussion and for the announcement of grant in future years is still for decision. To conduct the 1989 Survey on the new basis it would be necessary to have resolved all the issues of classification and control by the autumn of 1988, so that a baseline on the new basis can be constructed by early 1989.

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A NEW PLANNING TOTAL AND GGE

£ billion

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Central government's own expenditure	85.0	92.0	98.4	104.6	109.7	114.2
Central government grants to local authorities						
Current grants	19.0	19.6	19.6	21.1	23.0	23.3
Capital grants	0.2	0.2	0.4	0.5	0.8	0.8
Central government expenditure (1)	104.3	111.8	118.4	126.2	133.6	138.4
National non-domestic rate 'payments'	6.1	6.2	6.5	7.3	7.9	9.0
Local authority capital spending/ borrowing (2)	4.4	4.5	3.7	3.2	2.9	3.1
Public corporations						
Nationalised industries' EFLs	2.3	3.8	1.7	0.4	0.5	0.7
Other public corporations	1.0	1.1	0.9	0.8	0.6	0.8
Reserve	0.0	0.0	0.0	0.0	0.0	3.0
Privatisation proceeds	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0
<b>NEW PLANNING TOTAL</b>	<b>116.9</b>	<b>125.3</b>	<b>128.6</b>	<b>133.5</b>	<b>140.5</b>	<b>149.9</b>
Other local authority expenditure (excluding debt interest)	3.4	4.4	5.1	5.8	6.2	6.4
Local authority debt interest	3.9	4.1	4.5	4.3	4.4	4.5
Central government debt interest	10.6	12.0	13.2	13.3	13.4	13.6
Accounting adjustments	5.3	4.4	6.9	8.0	8.1	8.5
<b>GENERAL GOVERNMENT EXPENDITURE</b>	<b>140.1</b>	<b>150.2</b>	<b>158.2</b>	<b>164.8</b>	<b>172.6</b>	<b>182.8</b>

(1) Excluding finance for public corporations.

(2) The element in this line will need to be defined.



FROM: J HIBBERD  
DATE: 28 MARCH 1987

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Anson  
Dame A Mueller  
Mr H Phillips  
Mr Scholar  
Mr Lankester  
Mr Monck  
Mr Burgner  
Mr H P Evans  
Mrs Case  
Mr Mountfield  
Mr Odling-Smee  
Miss Peirson  
Mr Peretz  
Mr Robson  
Mr Culpin  
Mr Sedgwick  
Mr Turnbull  
Mrs R Butler  
Mr Gieve  
Mr Gilhooly  
Mr MacAuslan  
Mr McIntyre  
Mr Mowl  
Mr Allum  
Mr Cunningham  
Mr Call  
Mr Cropper  
Mr Tyrie

*Handwritten notes:*  
OK?  
AA  
OK  
W  
for unemployment  
a flat 2.35%  
M-

**ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE**

This submission seeks your approval for a revised set of Economic Assumptions to be sent to Departments. It is usual to circulate revised assumptions at this time of year, reflecting the FSBR, prior to the public expenditure round. These need to go to Departments by the end of March.

2. Assumptions are required on unemployment, retail price inflation, average earnings, interest rates and the GDP deflator, covering years up to 1991-92. None of these assumptions will be published at this stage. A submission in September will cover the assumptions, revised as necessary, to be used in the final stages of the Survey negotiations and for publication (except for the interest rate figures, and also the average earnings figures for later years) in the 1988 Autumn Statement and the 1989 PEWP.

3. The assumptions to be issued now will be reconsidered in July. If appropriate in the light of the June economic forecast and other developments, we will then seek your approval to issue revised economic assumptions to Departments, for use in the bilaterals. (They may also have to be reconsidered in the run up to the Autumn Statement.) Nonetheless, our general aim is to produce assumptions that we are not forced to change.

4. The proposed assumptions are consistent with the projections (short-term forecasts and medium term assumptions) in the FSBR.

#### Proposed assumptions

5. The remainder of this submission considers the proposed assumptions in turn. Tables at the end of this submission set out a comparison of the current proposals with the FSBR forecast; and with the PEWP assumptions, originally issued last autumn. A further table shows the main effects on public expenditure of changes in the economic assumptions.

#### Unemployment

6. The 1988 PEWP assumption for unemployment (GB narrow, ie excluding school leavers etc) was for a flat path of 2.6 million from 1988-89 onwards after 2.7 million in 1987-88. A revised assumption, of 2.63 million in 1987-88 and 2.4 million thereafter was issued to relevant Departments in January.

7. As we do not publish a new unemployment assumption until the autumn (in the GAD report), we have generally at this time of the year adopted something close to our best forecast as the assumption for the first year of the Survey period (ie 1988-89 this time). If the forecast proves correct, the assumption for the first year is partly history when published in November and so does not normally raise presentational problems; if the forecast proves wrong, the assumption can be, and is, revised before publication.

8. The unpublished 1988 MTF/FSBR projections for GB narrow unemployment are (in millions):

Financial Years				
<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-91</u>
2.63	2.30	2.27	2.31	2.27

In February, GB narrow unemployment stood at 2.41 million. The forecast has a continuing fall in unemployment over the next few months, mainly reflecting the impact of increasing employment opportunities as a result of continuing economic growth. It is assumed that Special employment measures will continue to have a downward influence on the unemployment count in 1988-89, but a much smaller effect than in the previous year.

9. On this occasion, however, we believe it would offer less of a hostage to fortune to stick with the revised assumptions issued in January, ie 2.4 million for 1988-89 and all later years. This is in slight conflict with the statement in the FBSR (and in your Budget speech) that there are good prospects for further fall in unemployment. But we can handle this, if Departments come back, by noting that you also said the prospect depends on moderate wage settlements. We can, of course, change the assumptions later this year, if our forecast proves robust.

10. The table below summarises the old and proposed new assumptions and the FBSR forecast/MTFS projection.

	<u>Unemployment Assumptions</u>				
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1988 PEWP	2.7	2.6	2.6	2.6	
January revised assumptions	2.63	2.4	2.4	2.4	
FBSR/MTFS	2.63	2.30	2.27	2.31	2.27
Proposed assumptions		2.4	2.4	2.4	2.4

If we do use 2.4, should surely be justified on single line "good prospects of fall but can't bank on it" - but this does look a bit odd.

Average earnings

11. The average earnings assumption published last November by the Government Actuary showed a  $6\frac{1}{2}$  per cent increase in 1988-89 after an estimated  $7\frac{1}{2}$  per cent increase in 1987-88. The forecast underlying the FSBR has  $8\frac{1}{4}$  per cent in 1988-89 (not published), following  $7\frac{3}{4}$  per cent in 1987-88 (this was published in the FSBR).

12. The Department of Employment's estimate of underlying growth in average earnings has drifted up from  $7\frac{1}{2}$  per cent to  $8\frac{1}{2}$  per cent over the last year. This mainly reflects record overtime and bonus payments, although the high teachers' and LA manual workers' awards have affected the recent figures. We do not expect overtime working to continue at current rates. But the favourable impact of lower overtime on earnings is likely to be offset by higher settlements. While recent evidence is somewhat mixed, private sector settlements are probably about  $\frac{1}{4}$  per cent higher than a year ago. We think it unlikely that earnings growth will fall below 8 per cent at any time in 1988-89.

13. It seems likely, therefore, that when we come in the autumn to consider the next set of earnings figures for the Government Actuary to publish, we will have to raise the current assumption of  $6\frac{1}{2}$  per cent for 1988-89. But there seems no strong need to do that at this stage. The assumption has only a relatively small effect on the estimate of demand-led expenditure, so that no serious amount of expenditure is at stake in the choice of earnings assumption.

14. Thus for the time being, rather than take the risk of giving any impression that the government is acquiescing in higher earnings growth than previously anticipated, which might affect public sector pay negotiations, or expectations about pay more generally, we would propose to retain the existing assumption for 1988-89. For later years, we propose to assume a steadily declining path in earnings, in line with the MTFs figures. The proposals, together with the existing assumptions and the FSBR forecast/MTFS projections are given below.

Average earnings assumptions

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1988 PEWP assumption*	7½	6½	5½	5	
FSBR/MTFS	7.8	8.2	6.6	5.8	5.1
Proposed assumption		6½	5½	5	5

\* Only 1987-88 and 1988-89 figures were published (by Government Actuary and in Autumn Statement.)

Retail Prices

15. RPI assumptions are needed for September 1988, 1989 and 1990, to determine the size of the social security upratings in the following financial years. The FSBR includes forecasts of RPI inflation at 4 per cent in both 1988Q4 and 1989Q2. The September 1988 inflation figure implied by the FSBR forecast is 4½ per cent. The MTFS projections have a broadly declining path for inflation with a slight rise in the second half of 1989. The forecast path through 1990 is rather bumpy, and it would be unadvisable to give undue weight to the quarterly profile in setting the assumption. Instead we accord more weight to the MTFS figure for 1990 as a whole (3 per cent) in deriving the RPI assumption. At the time RPI assumptions next have to be published (in the Autumn Statement) the September 1988 figure will be recorded history, and the September 1989 figure will have to be reconsidered in the light of the 1989Q4 inflation forecast to appear in the Autumn Statement. The table below summarises the assumptions used in the 1988 PEWP, the FSBR/MTFS figures and the assumptions that it is now proposed to issue to Departments.

16. The RPI excluding housing, which is used for uprating about a third of the social security programme is expected to rise by about 4 per cent in the year to September 1988 and by 2½ per cent in the year to September 1989 (unpublished figures used in the PEWP were 4½ per cent and 3 per cent for 1988 and 1989 respectively). The RPI excluding housing is projected to rise by 3 per cent in the year to September 1990.

Retail price index assumptions

Increase in September over previous September

	<u>1988</u>	<u>1989</u>	<u>1990</u>
1988 PEWP	4.5	3.25	
FSBR/MTFS	4¼	3	3.4
Proposed RPI assumption	4¼	3½	3
Proposed RPI (excluding housing) assumptions	4	3	2½

GDP deflator

17. A path of the GDP deflator over the MTFS period was published in the FSBR, and no changes to this are proposed. It is given below for reference, along with the 1987 MTFS/1988 PEWP figures.

GDP deflator, per cent changes on previous financial year

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-91</u>
1988 PEWP	4¼	4½	3½	3	
FSBR/MTFS	5	4½	4	3½	3

Interest Rates

18. The table below summarises the latest interest rates and the assumptions underlying the figuring in the FSBR forecast:

	<u>Latest</u> (close 24 March)	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
3 month interbank	8.7	9.0	8.9	8.5	8.1
20 year gilt rate	9.1	9.2	8.9	8.5	8.1
6 month Dollar LIBOR	7.0*	[9¼ ]	[10¾]	[9 ]	[8¾]

(\* 24 March).

19. Interest rates are currently a little below the FSBR projections following the recent cut in interest rates. However we prefer to stick with the FSBR projection. This has the implication of rising interest rates in 1988-89 from present levels. But these assumptions are not published and go only to a small number of Departments. It should thus cause no difficulty.

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>3-month interbank</u>				
1988 PEWP	10	9½	9	
Proposed Assumption	9	9	8½	8
<u>20-year gilt rate</u>				
1988 PEWP	10	9	9	
Proposed Assumption	9	9	8½	8
<u>6-month dollar LIBOR</u>				
1988 PEWP	8½	9	9	
Proposed Assumption	9	10	9	9

Effects on expenditure

20. Table 3 in the annex sets out a ready reckoner indicating the approximate effect on forecast expenditure of changes to the economic assumptions. The table below shows the changes in expenditure implied by the proposals made in this submission, as compared with the assumptions used in the estimates published on Budget day.

<u>Assumption:</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Unemployment	0	0	0
RPI		- 30	0
Interest rates*	- 80	0	- 40
<hr/>			
Total	- 80	- 30	- 40

Decisions

Are you content for us to proceed as proposed? We would like to circulate revised assumptions by the end of March if at all possible.

*Jim Hibberd*  
 J S HIBBERD

ANNEXTable 1ASSUMPTIONS ON UNEMPLOYMENT, EARNINGS AND INFLATION

<u>Unemployment GB narrow (millions)</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Published PEWP assumption</u>		2.6	2.6	2.6	
<u>Unpublished January assumption</u>	2.63	2.4	2.4	2.4	
<u>Unpublished FSBR/MTFS figures</u>	2.63	2.30	2.27	2.31	2.27
<u>Proposed Assumptions</u>		2.4	2.4	2.4	2.4

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Average earnings per head</u> <u>(per cent changes)</u>					
<u>Published PEWP/GA assumption</u>	7½	6½			
<u>Unpublished PEWP/GA assumption</u>			5½	5	
<u>Unpublished FSBR/MTFS figures</u>	7.8	8.2	6.6	5.8	5.1
<u>Proposed Assumptions</u>		6½	5½	5	5

<u>RPI (per cent changes)</u>	<u>Year to</u> <u>September</u> <u>1988</u>	<u>Year to</u> <u>September</u> <u>1989</u>	<u>Year to</u> <u>September</u> <u>1990</u>
<u>Published PEWP assumption</u>	4½	3¼	
<u>Unpublished FSBR/MTFS figures forecast</u>	4¼	3	3½
<u>Proposed Assumptions</u>	4¼	3½	3
<u>Proposed Assumption for RPI excluding housing</u>	4	3	2½

<u>GDP deflator (per cent changes)</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Published PEWP assumption</u>	4¼	4½	3½	3	
<u>Published FSBR/MTFS figures</u>	5	4½	4	3½	3
<u>Proposed assumptions</u>		4½	4	3½	3



ANNEXTable 2

## ASSUMPTIONS ON INTEREST RATES

<u>3-month sterling interbank rate</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Unpublished</u> PEWP assumption	10	10	9	9	
<u>Unpublished</u> FSBR/MTFS figures	9.3	9.0	8.9	8.5	8.1
<u>Proposed Assumptions</u>		9	9	8½	8
<u>20-year gilt rate</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Unpublished</u> PEWP assumption	10	10	9	9	
<u>Unpublished</u> FSBR/MTFS figures	9.4	9.2	8.9	8.5	8.1
<u>Proposed Assumptions</u>		9	9	8½	8
<u>6-month Dollar LIBOR</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Unpublished</u> PEWP assumption	7½	8½	9	9	
<u>Unpublished</u> FSBR/MTFS figures	7½	9¼	10¾	9½	8¾
<u>Proposed Assumptions</u>		9	10	9	9

ANNEXTable 3EFFECT OF CHANGES IN ASSUMPTIONS ON THE PUBLIC EXPENDITURE PLANNING TOTAL

	<u>£ million</u>			
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
(a) 100,000 rise in unemployment DHSS	220	230	240	240
<u>One point rise in sterling interest rates</u>				
(b) ECGD (short rates)	55	52	48	44
(c) Housing subsidies (pool rate*0)	110	110	110	110
(d) DTI credit to shipbuilders (short rates)	9	9	9	9
<u>One point rise in dollar interest rates</u>				
(e) ECGD	12	14	17	20
<u>One per cent higher September 1988 RPI relevant to April 1989 uprating**</u>				
(f) DHSS		410	430	430

\* Housing subsidy pool rate responds with a lag to changes in short and long rates.

\*\* Ready reckoner applies to one point change in both the all items RPI and the RPI excluding housing.

*papers p2e*



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	06 APR 1988
ACTION	CST
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*6/5*

From the Private Secretary

5 April 1988

Dear Sir,

FINANCIAL REPORTING TO PARLIAMENT

The Prime Minister was grateful for the Chief Secretary's minute of 29 March and the attached memorandum.

The Prime Minister accepts there is a good case for a programme of changes to the public expenditure documents on the basis proposed. She is however concerned about the implication that the debate on public expenditure in January/February should be replaced by a new Parliamentary debate in May/June. A debate at this time, while the Finance Bill is still before the House, could lead to the whole Budget stance being questioned. It could also make it more difficult to restrict discussion to the expenditure plans agreed in the previous year and increase the questioning on the new year's Survey. The Prime Minister would therefore be grateful if the Lord President and the Chief Secretary could give further thought to this aspect of the proposals.

I am copying this letter to the Private Secretaries to other members of the Cabinet, Eleanor Goodison (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and to Trevor Woolley (Cabinet Office).

*Yours,  
Paul*

Paul Gray

Ms Jill Rutter  
Chief Secretary's Office.

*contributions  
area of public  
expenditure (by the NHS);  
also the feasibility of 'questioning'  
Survey, cannot  
know problems in  
May/June  
both dates in  
Office in  
July  
Cabinet.  
But the plan  
is to have  
some other  
gains  
in head  
of it  
stance  
I don't think there  
is a problem here.  
A debate in May/June  
on balance for the  
focus on the  
than on some  
contribution*

FROM: MRS TODD  
DATE: 6 APRIL 1988

1. MR SEDGWICK *Approved in draft* *Please minute* cc Sir P Middleton  
2. CHANCELLOR Sir T Burns  
Mr Anson  
Mr Scholar  
Mr Peretz  
Mr Mowl o/r  
Mr Watts  
Mr Ritchie
- Thanks*
- [Red scribble]*

**CGBR(O) AND CGBR : FIRST ESTIMATES OF 1987-88 OUTTURN**

The provisional outturn for the CGBR(O) in 1987-88 is a net repayment of £3.4 billion. This compares with the forecast of a net repayment of £3.2 billion published in the 1988 Financial Statement and Budget Report on 15 March and with the internal forecast of a net repayment of £3.8 billion in Mr Sedgwick's minute to you of 9 March. The estimate of outturn is subject to revision before publication on Wednesday 20 April and then there may be subsequent small revisions to the published figures. The provisional outturn for the PSBR will be available next Wednesday 13 April.

2. The provisional outturn for the CGBR(O) in March is £2.8 billion borrowing, £0.4 billion more than our central view for March contained within the internal forecast of 9 March. This difference is largely due to a higher end year surge of departmental expenditure (by £0.6 billion) and lower other receipts (by £0.1 billion) offset by higher Inland Revenue receipts (by £0.2 billion, partly higher Corporation Tax), higher Customs and Excise receipts (by £0.1 billion, mainly Hydrocarbon oil duties) and higher National Insurance Contributions (by £0.1 billion).

3. In comparison with the forecast outturn for 1987-88 published in the 1988 FSBR, the main differences in outturn, giving £0.2 billion higher net repayments, are slightly higher departmental expenditure (by £0.1 billion) and lower other receipts

CONFIDENTIAL AND PERSONAL

£0.1 billion) more than offset by the £0.4 billion higher Inland Revenue and Customs and Excise receipts and National Insurance Contributions described above.

4. On-lending to local authorities and public corporations totalled £4.1 billion in 1987-88 giving a provisional CGBR for the year of £0.7 billion borrowing. On-lending to local authorities was £1.1 billion lower than forecast in the FSBR, but this does not necessarily carry any implications for the LABR as it may be offset by other sources of LA finance.

5. Further analysis of the CGBR(0) outturn in March will be given in the next Ministerial note on the PSBR in two weeks' time.

*Philip Todd*

P TODD

CONFIDENTIAL AND PERSONAL

CENTRAL GOVERNMENT TRANSACTIONS

	March 1988			1987-88				
	Provis- ional outturn	Last months forecast(b)	Difference	Provis- ional outturn	1987 FSBR forecast	Difference	1988 FSBR forecast	Difference
<b>Receipts</b>								
Inland Revenue	4.9	4.8	0.2	64.5	61.1	3.4	64.4	0.2
Customs and Excise	3.7	3.7	0.1	44.7	43.8	1.0	44.7	0.1
National Insurance Contributions	2.6	2.5	0.1	27.5	26.9	0.6	27.4	0.1
Privatisation proceeds	-	-	-	5.0	5.0	-	5.0	-
Interest & dividends	1.3	1.2	-	8.9	8.7	0.2	8.9	-
Other receipts	0.2	0.3	-0.1	3.9	3.5	0.4	3.9	-0.1
<b>Total receipts</b>	<b>12.7</b>	<b>12.4</b>	<b>0.2</b>	<b>154.6</b>	<b>148.9</b>	<b>5.7</b>	<b>154.3</b>	<b>.3</b>
<b>Expenditure</b>								
Interest payments	1.8	1.8	-	16.5	16.8	-0.3	16.5	-
Departmental expenditure (a)	13.7	13.1	0.6	134.6	135.7	-1.0	134.6	0.1
<b>Total expenditure</b>	<b>15.5</b>	<b>14.8</b>	<b>0.6</b>	<b>151.2</b>	<b>152.5</b>	<b>-1.4</b>	<b>151.1</b>	<b>0.1</b>
<b>CGBR(0)</b>	<b>2.8</b>	<b>2.4</b>	<b>0.4</b>	<b>-3.4</b>	<b>3.6</b>	<b>-7.1</b>	<b>-3.2</b>	<b>-0.2</b>
<b>CGBR(0) excluding privatisation proceeds</b>	<b>2.8</b>	<b>2.4</b>	<b>0.4</b>	<b>1.6</b>	<b>8.6</b>	<b>-7.0</b>	<b>1.8</b>	<b>-0.2</b>
On-lending to LAs	0.5	1.6	-1.1	4.1	3.0	1.1	5.2	-1.1
On-lending to PCs	0.4	0.1	0.3	0.1	-0.1	0.1	-0.2	0.3
<b>CGBR</b>	<b>3.7</b>	<b>4.1</b>	<b>-0.4</b>	<b>0.7</b>	<b>6.5</b>	<b>-5.8</b>	<b>1.7</b>	<b>-1.0</b>

(a) on a cash basis, net of certain receipts

(b) Mr Sedgwick's submission to the Chancellor of 9 March headed "the PSBR in 1987-88 and 1988-89: final figures for the FSBR"

+ = higher receipts, and higher borrowing, higher expenditure

- = lower receipts, and lower borrowing, lower expenditure

CONFIDENTIAL AND PERSONAL

BF 157A  
(m)FROM: COLIN MOWL  
DATE: 13 April 1988

- MUS 13/4*
1. MR SCHOLAR
  2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton  
Sir T Burns  
Mr Peretz  
Mr Sedgwick  
Mr Ritchie  
Mrs Todd  
Miss H Chapman

**PSBR IN MARCH AND 1987-88**

The first provisional outturn for the PSBR in 1987-88 is a net repayment of £3.7 billion, 0.9 per cent of (forecast) money GDP. This compares with the forecast of a net repayment of £3.1 billion published in the 1988 FSBR on 15 March and with the internal forecast of a net repayment of £3.7 billion in Mr Sedgwick's minute to you of 9 March. The estimated outturn is subject to revision before publication at 11.30 am on Wednesday 20 April.

2. There have been no significant revisions to the earlier months of the year.

3. The first provisional outturn for the PSBR in March is £3.7 billion borrowing. As usual in March both central government own account borrowing and the LABR were high. (The latest estimate of the CGBR(0) is very slightly different from that reported by Mrs Todd on 6 April.) Public corporations made a small net repayment. The PSBR in March was very close to the internal forecast of 9 March. Higher than forecast central government own account borrowing was largely offset by lower than forecast borrowing by local authorities and public corporations. Mrs Todd's minute of 6 April (copy attached) gave further information on the central government position.

4. Further analysis of the 1987-88 outturn and monthly profiles for 1988-89 consistent with the FSBR forecast will be given in the monthly note on the PSBR to be circulated early next week.

*Colin Mowl*

COLIN MOWL

## CONFIDENTIAL AND PERSONAL

	March 1988			1987-88				
	Provisional outturn	Last month's forecast*	Difference	Provisional outturn	1987 Budget forecast	Difference	1988 FSBR forecast	Difference
<b>CGBR(O)</b>	2.7	2.4	0.3	- 3.5	3.6	- 7.1	- 3.2	- 0.3
<b>LABR</b>	1.2	1.2	- 0.1	1.4	1.2	0.3	1.5	- 0.1
<b>PCBR</b>	- 0.2	0.0	- 0.2	- 1.6	- 0.9	- 0.8	- 1.4	- 0.2
<b>PSBR</b>	3.7	3.6	0.1	- 3.7	3.9	- 7.6	- 3.1	- 0.6
<b>PSBR excluding privatisation proceeds</b>	3.7	3.6	0.1	1.4	8.9	- 7.5	1.9	- 0.6

\* Mr Sedgwick's submission to the Chancellor of 9 March, "The PSBR in 1987-88 and 1988-89: final figures for the FSBR".



FROM: MRS TODD  
DATE: 6 APRIL 1988

1. MR ~~SEDGWICK~~ *Approved in draft*
2. CHANCELLOR

cc Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Scholar  
Mr Peretz  
Mr Mowl o/r  
Mr Watts  
Mr Ritchie

### CGBR(O) AND CGBR : FIRST ESTIMATES OF 1987-88 OUTTURN

The provisional outturn for the CGBR(O) in 1987-88 is a net repayment of £3.4 billion. This compares with the forecast of a net repayment of £3.2 billion published in the 1988 Financial Statement and Budget Report on 15 March and with the internal forecast of a net repayment of £3.8 billion in Mr Sedgwick's minute to you of 9 March. The estimate of outturn is subject to revision before publication on Wednesday 20 April and then there may be subsequent small revisions to the published figures. The provisional outturn for the PSBR will be available next Wednesday 13 April.

2. The provisional outturn for the CGBR(O) in March is £2.8 billion borrowing, £0.4 billion more than our central view for March contained within the internal forecast of 9 March. This difference is largely due to a higher end year surge of departmental expenditure (by £0.6 billion) and lower other receipts (by £0.1 billion) offset by higher Inland Revenue receipts (by £0.2 billion, partly higher Corporation Tax), higher Customs and Excise receipts (by £0.1 billion, mainly Hydrocarbon oil duties) and higher National Insurance Contributions (by £0.1 billion).

3. In comparison with the forecast outturn for 1987-88 published in the 1988 FSBR, the main differences in outturn, giving £0.2 billion higher net repayments, are slightly higher departmental expenditure (by £0.1 billion) and lower other receipts

CONFIDENTIAL AND PERSONAL

(by £0.1 billion) more than offset by the £0.4 billion higher Inland Revenue and Customs and Excise receipts and National Insurance Contributions described above.

4. On-lending to local authorities and public corporations totalled £4.1 billion in 1987-88 giving a provisional CGBR for the year of £0.7 billion borrowing. On-lending to local authorities was £1.1 billion lower than forecast in the FSBR, but this does not necessarily carry any implications for the LABR as it may be offset by other sources of LA finance.

5. Further analysis of the CGBR(O) outturn in March will be given in the next Ministerial note on the PSBR in two weeks' time.

*Philip Todd*

P TODD

CONFIDENTIAL AND PERSONAL

CENTRAL GOVERNMENT TRANSACTIONS

	March 1988			1987-88				
	Provis- ional outturn	Last months forecast(b)	Difference	Provis- ional outturn	1987 FSBR forecast	Difference	1988 FSBR forecast	Difference
<b>Receipts</b>								
Inland Revenue	4.9	4.8	0.2	64.5	61.1	3.4	64.4	0.2
Customs and Excise	3.7	3.7	0.1	44.7	43.8	1.0	44.7	0.1
National Insurance Contributions	2.6	2.5	0.1	27.5	26.9	0.6	27.4	0.1
Privatisation proceeds	-	-	-	5.0	5.0	-	5.0	-
Interest & dividends	1.3	1.2	-	8.9	8.7	0.2	8.9	-
Other receipts	0.2	0.3	-0.1	3.9	3.5	0.4	3.9	-0.1
<b>Total receipts</b>	<b>12.7</b>	<b>12.4</b>	<b>0.2</b>	<b>154.6</b>	<b>148.9</b>	<b>5.7</b>	<b>154.3</b>	<b>.3</b>
<b>Expenditure</b>								
Interest payments	1.8	1.8	-	16.5	16.8	-0.3	16.5	-
Departmental expenditure (a)	13.7	13.1	0.6	134.6	135.7	-1.0	134.6	0.1
<b>Total expenditure</b>	<b>15.5</b>	<b>14.8</b>	<b>0.6</b>	<b>151.2</b>	<b>152.5</b>	<b>-1.4</b>	<b>151.1</b>	<b>0.1</b>
<b>CGBR(0)</b>	<b>2.8</b>	<b>2.4</b>	<b>0.4</b>	<b>-3.4</b>	<b>3.6</b>	<b>-7.1</b>	<b>-3.2</b>	<b>-0.2</b>
<b>CGBR(0) excluding privatisation proceeds</b>	<b>2.8</b>	<b>2.4</b>	<b>0.4</b>	<b>1.6</b>	<b>8.6</b>	<b>-7.0</b>	<b>1.8</b>	<b>-0.2</b>
On-lending to LAS	0.5	1.6	-1.1	4.1	3.0	1.1	5.2	-1.1
On-lending to PCs	0.4	0.1	0.3	0.1	-0.1	0.1	-0.2	0.3
<b>CGBR</b>	<b>3.7</b>	<b>4.1</b>	<b>-0.4</b>	<b>0.7</b>	<b>6.5</b>	<b>-5.8</b>	<b>1.7</b>	<b>-1.0</b>

(a) on a cash basis, net of certain receipts

(b) Mr Sedgwick's submission to the Chancellor of 9 March headed "the PSBR in 1987-88 and 1988-89: final figures for the FSBR"

+ = higher receipts, and higher borrowing, higher expenditure

- = lower receipts, and lower borrowing, lower expenditure

cc Mr Anderson  
Mr Turnbull  
(reds)



CH/EXCHEQUER	
REC.	15 APR 1988
ACTION	CST
COPIES TO	

✓ 15/4

mpw 15/4

PRIME MINISTER

NOSE

**FINANCIAL REPORTING TO PARLIAMENT**

I have seen the Chief Secretary's Minute to you of 29 March enclosing a draft Memorandum in reply to the recommendations of the PAC and the TCSC about the way in which information on public expenditure is reported to Parliament. I have seen also the subsequent exchange of letters between Private Secretaries.

I recognise the arguments for altering the documents presented to Parliament, as proposed, and am content with what is intended. The changes to the Sessional cycle of debates on public expenditure and Estimates which might follow this programme of alterations do, however, cause me some concern, as they do David Waddington with whom I have discussed the matter.

At present, the practice is for the Autumn Statement to be made sometime in the first half of November. The debate on this follows either in December or January, while the debate on the Public Expenditure White Paper comes in February or March. The pattern for taking the allotted three Estimates days, (one of which can be taken as two half days) is more variable - over the last four years the first part of the first day has twice been taken in December and twice in the March of the following year - but is particularly weighted towards taking two of the days in June and July.

A change to this arrangement which would do away with the public expenditure debate in February or March and probably replace it with another 'Estimates' day in May or June seems to us unattractive. If the Autumn Statement debate continued to occur before Christmas, it would be difficult to sustain the position whereby the House of Commons had no further occasion on which to debate public expenditure until after the Budget, when there are already many opportunities for financial matters to be raised.

Furthermore, while the existing system of Estimates days works reasonably well, and I can understand the TCSC's wishing to see another day's debate of this kind, we do not believe that to the House generally the proposed debate in May/June would be an adequate substitute for the debate on public expenditure which we would be seeking to remove. But if it were once suggested, it would be sought in addition to the day's debate on public expenditure rather than as a substitute for it.

We believe, therefore, that there is a strong case for minimising the changes to the cycle of debates. Instead of extra time for debate in May/June arising from Select Committee scrutiny of one or more departmental reports, we might offer a two-day debate on the Autumn Statement in January/February. Among other advantages, this would give the TCSC slightly longer to prepare their report on the Autumn Statement, which would be relevant to the debate. We might also suggest, to assist the negotiations with the Opposition, that we would consider upgrading the significance of the Third Reading of the Finance Bill, by using it to provide a full day's debate on the economic situation just before the House rises for the Summer recess, for which there is normally some pressure. I attach a revised version of Paragraph 14 of the draft Memorandum in reply to the TCSC, which reflects this line of thought but makes it clear that this is a matter for further discussion.

(X)

Copies of this Minute go to other Members of the Cabinet, David Waddington, Richard Luce, Christopher Patten, Patrick Mayhew, Kenny Cameron and to Sir Robin Butler.

*1. SLS in gratitude for  
the CST's wishes. But not  
this for cannot have 16 20  
AS debate (whether one day or two)  
differs unless PAs, when I am  
PP JW  
for strength opposed to Law  
later than a 1st 1/2 of Jan  
2. That said, it might  
be better to give to the  
committee (as do the  
in to work, it is committee's  
better to be some of  
the better.*

Anderson Smith

15 April 1988

(approved by the Lord President and signed in his absence).

RE-DRAFTED PARAGRAPH 14

14. Fourth, as the TCSC has pointed out, there are implications for the way in which the information presented is debated by Parliament. If the PEWP is divided as proposed, there would not be the basis for a separate debate that there now is, though the Government recognises that the House would not wish to lose a day's debate on public expenditure. While noting the TCSC's proposal that a debate might be held in May or June arising from Select Committee scrutiny of one or more departmental reports, the Government is not <sup>yet</sup> convinced that this would prove an acceptable alternative in all parts of the House, and would propose to consult further before taking a final view on the arrangements which should be made.



MP

Ch/Officials have asked whether you have strong views on Lord President's letter.

FROM: MOIRA WALLACE

DATE: 18 April 1988

PS/CHIEF SECRETARY

- cc PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Anson
- Mr Phillips
- Mr Turnbull
- Mr Gieve
- Mrs Butler
- Mr Richardson
- Miss Evans
- Mr Dyer

2. Also, do you want to write, or leave to CST?

Leave to CST

mpw 18/4

FINANCIAL REPORTING TO PARLIAMENT

The Chancellor has seen the Lord President's minute to the Prime Minister of 15 April. He would be grateful for the Chief Secretary's views. In the meantime, he has commented that one thing we cannot have is the Autumn Statement Debate (whether one day or two) deferred until February when Ministers are in Budget purdah. Indeed, the Chancellor would be strongly opposed to having it later than the first half of January.

2. That said, the Chancellor thinks it might be sensible to agree to the redrafted paragraph 14 (further amending the last sentence to read "...the Government is not yet convinced..."): it commits us to nothing, and the sooner we issue the memorandum the better.

MOIRA WALLACE

Re this, I have no strong views. I would like to keep it up our sleeve, as something to be used if necessary. I would like to see the Chancellor's view on this. I would like to see the Chancellor's view on this. I would like to see the Chancellor's view on this.

CONFIDENTIAL

*Given the Lord President's dislike of the May/June option, I am*

FROM: A TURNBULL  
DATE: 18 APRIL 1988

- 1. MR ANSON *rather inclined to the suggestion* cc
- 2. CHIEF SECRETARY *in paragraph 8 below.*

- Sir P Middleton
- Sir A Wilson
- Mr Phillips
- Mr Monck
- Mr Odling-Smee
- Mr Culpin
- Mr Luce
- Mr Gieve
- Mr Richardson
- Mrs R Butler o/r
- Mr G C White
- Miss Walker
- Miss Evans
- Mr Dyer

Copies attached for:

- Chancellor
- Financial Secretary
- Paymaster General
- Economic Secretary

*In any case, I think the redraft in paragraph 11 is an improvement, since it is less needlessly provocative.*

*NOT @*

*VA*  
*19/4*

FINANCIAL REPORTING TO PARLIAMENT

The Lord President has responded to your minute to the Prime Minister of 29 March. He accepts the changes in the structure of the documents but opposes the idea of replacing the February public expenditure debate with an extra Estimates day in May/June to discuss one or more of the reports from Select Committees. He suggests:

- i. holding the Autumn Statement debate after Christmas and extending it to two days;
- ii. redrafting the memorandum to indicate that further consultation through the usual channels is needed before the Government takes a decision, but in a way which clearly indicates hostility to the May/June proposal.

*(1)*

2. It appears that the Lord President and the Chief White have not yet sounded out the Opposition and that their proposal reflects their anticipation of the Opposition's reaction. It probably also reflects their preference for making Parliamentary time available in January/February, rather than May/June when demands on it are greater.

3. The first stage is for Treasury Ministers to decide:



i. whether to go along with the idea of adding an extra day to the Autumn Statement debate; or

ii. whether on merits they prefer the May/June proposal and want to urge the Lord President to argue for it when in his discussions with the Opposition..

4. There are arguments for and against, depending on whether one is considering the interests of the Government as a whole, the pressures on Treasury Ministers, or effective debates in Parliament.

5. Transferring the February day to May/June has the advantage of being more consistent with the new structure of the documents, with departments taking more responsibility for the production of their departmental reports, and being answerable to Parliament on them. Responsibility for the debate would move from the Treasury to other departmental Ministers. It would leave the Autumn Statement debate at one day.

6. The disadvantage would be that the extra day in May/June could be used by the Opposition to debate whatever was the programme on which the Government was under pressure at the time.

7. Adding an extra day to the Autumn Statement debate seems likely to produce an unsatisfactory debate but, from the point of view of the Government that may be part of its attraction, as a sparsely attended, low-key debate may be less damaging than the alternatives. The Lord President does not seem to have taken into account that there is already an economic debate, as part of the Queen's Speech, in November and that in most years we have managed to time the Autumn Statement so that it precedes the Economic Day which can be used to express immediate reactions to it. Thus the Lord President is, in effect, proposing not an expansion from one day to two, but from two days to three. It must be doubtful if there would really be enough interest to sustain this third day.

8. One possibility, however, would be to offer the extra day but to be prepared to withdraw it if, like the second day of the old public expenditure debate, it proved a flop.

9. If the extra day were to be added to the Autumn Statement debate, this would point to holding it after Christmas. However, the Chancellor has pointed out that he would want the debate to be as soon as possible after the Recess as by February he will want to be concentrating on his Budget. A further consideration is that the two-day debate would require four Treasury Ministers to speak.

10. There is no unanimity among officials on the choice between going along with the two-day Autumn Statement or continuing to press for the day to be reallocated to May/June. It is an essentially a matter for Ministers' supreme judgement. (how kind)

11. According to what line you wish to take, there are consequences for the way paragraph 14 of the memorandum is drafted. If you want to try to persuade the Lord President to argue with the Opposition for the May/June option the last sentence should read:

While noting the TCSC's proposal that a debate might be held in May or June arising from Select Committee scrutiny of one or more departmental reports, the Government proposes to consult further before taking a final view on the arrangement which should be made."

12. If you wish to go along with the Lord President's proposal his draft can stand though, as the Chancellor has suggested the third line from the bottom could read "The Government is not yet convinced".

13. The Lord President has also thrown in the suggestion that the Government could offer to upgrade the Third Reading of the Finance Bill into a full debate on the economy, as there is often a demand from the Opposition for such a debate before the House rises at the end of July. The Chancellor has expressed the view that there is no objection in principle to this, although it should not be offered but held in reserve in negotiations with the Opposition.

14. I have arranged with the No 10 Private Office that submission of these papers to the Prime Minister be held up until you have

Not quite  
Purdah

had a chance to respond to the Lord President's minute. According to the view you take on the debate I will submit a draft letter to No 10.

AT

A TURNBULL

Para 9 misn to pot:  
I wd have to take part - now  
to open - no 2-day AS debate  
I cannot, as Ch/Ex, be expected  
to take part in a debate between  
the middle of June & the Budget, Panda  
because I shall be in Budget Panda  
This must be clear reflected in  
the CST's report; it is a debate  
wd have to be in 1st 1/2 of  
July.

CONFIDENTIAL AND PERSONAL

*Ch/ briefing/line to take out*FROM: C J MOWL  
DATE: 18 April 1988

CHANCELLOR OF THE EXCHEQUER

*mpw*cc: Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Sedgwick  
Mr Odling-Smee  
Mr R I G Allen  
Mr Bush  
Mr Ritchie  
Ms Chapman*18/4**One small change in the table.*

## DRAFT PRESS BRIEFING ON PSBR IN MARCH AND 1987-88

I attach the draft press briefing on the PSBR in March and 1987-88.

2. The provisional estimate of the PSBR in 1987-88 to be published on Wednesday is a net repayment of £3.6 billion, a £0.1 billion smaller repayment than the first estimate I reported on 13 April. The provisional estimate of the PSBR in March to be published is borrowing of £3.8 billion, £0.1 billion more borrowing than the first estimate. While the figures to be published this month are now final, they may be revised in future months.

3. Available City forecasts for the PSBR in March average £3.4 billion, implying an average net repayment of £4 billion for 1987-88 as a whole.

4. The proposed summary line to take and statement to Reuters, which has been discussed with Mr Scholar and IDT, is as follows:

"PSBR in March provisionally £3.8 billion. PSBR for 1987-88 provisionally a net repayment of £3.6 billion, a slightly higher repayment than forecast on Budget day. Provisional outturn equivalent to  $\frac{3}{4}$  to 1 per cent of money GDP."

5. We should be grateful for comments on the summary line to take and rest of the briefing during the course of Tuesday morning.

*Colin Mowl*

COLIN MOWL

From: ALLEN RITCHIE  
20 April 1988

MR R.I.G. ALLEN - IDT

MR LANG - CSO Press Office

cc List A

List B

(distributed at 11.30am, 20 April)

Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mrs Butler  
Mr Grice

Mr Mowl  
Miss O'Mara  
Mr Pickford  
Mr Bush  
Mr Franklin  
Mrs Todd  
Mr R Evans  
Miss Chapman  
Mr Mansell - CSO  
Mr Richardson - CSO  
Mr Wright B/E  
Mr Gray - No 10

Mr C.M. Kelly  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Ko - IR  
Mr Balley - C and E

**BRIEFING FOR 16 MARCH PSBR PRESS NOTICE**

The PSBR figures for March will be published at 11.30am on 20 April. The provisional outturns, together with figures for 1986-87 and 1987-88 as a whole are shown in Table 1. Cumulative figures for the PSBR and its components for 1985-86 and 1986-87 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

**Table 1:**

**Borrowing requirement outturns**

£ billion

	1986- 1987	1987- 1988	March 1988
Central government on own account	4.5	-3.5	2.8
Local authorities	0.2	1.4	1.2
Public corporations	-1.4	-1.6	-0.1
PSBR	3.4	-3.6	3.8
Memo: PSBR (excluding privatisation proceeds)	7.8	1.5	3.8

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		
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88
	Apr	1.1	0.2	1.9	0.8	0.7	0.5	-0.2	-0.1	-0.4	1.8	0.8
May	2.3	1.9	2.2	0.8	0.4	0.1	-0.4	-0.5	-0.4	2.7	1.8	1.9
Jun	2.7	3.1	1.7	0.5	-0.1	0.2	-0.5	-0.7	-0.5	2.6	2.2	1.4
Jul	3.6	3.1	1.4	0.8	-0.1	0.4	-1.2	-1.1	-0.8	3.1	1.9	1.0
Aug	4.6	4.2	2.3	0.9	0.2	0.2	-1.2	-0.8	-0.8	4.3	3.6	1.7
Sep	5.1	6.7	2.0	1.1	0.0	0.5	-0.7	-0.9	-0.7	5.5	5.8	1.9
Oct	5.0	6.5	1.5	0.7	-0.3	0.1	-0.5	-0.5	-0.8	5.3	5.7	0.8
Nov	6.2	7.3	0.6	0.1	-0.7	-0.5	-0.3	-0.9	-0.8	6.0	5.6	-0.7
Dec	7.4	5.7	0.0	0.4	-0.6	0.1	-0.2	-0.9	-0.8	7.6	4.2	-0.6
Jan	2.9	2.2	-5.9	0.5	-0.6	0.1	-0.2	-1.1	-1.1	3.2	0.5	-6.9
Feb	2.9	2.3	-6.2	0.4	-0.7	0.3	-0.6	-1.6	-1.4	2.8	0.1	-7.4
Mar	4.3	4.5	-3.5	1.7	0.2	1.4	-0.2	-1.4	-1.6	5.7	3.4	-3.6

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL  
(draft)

**Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS**

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88	1985-86	1986-87	1987-88
	Apr	1.1	1.3	2.1	0.8	0.7	0.5	-0.2	-0.1	-0.4	1.8	1.9
May	2.5	3.0	2.9	0.8	0.4	0.1	-0.4	-0.5	-0.4	2.9	2.9	2.6
Jun	4.0	4.2	4.1	0.5	-0.1	0.2	-0.5	-0.7	-0.5	3.9	3.3	3.8
Jul	5.0	4.2	4.3	0.8	-0.1	0.4	-1.2	-1.1	-0.8	4.5	3.0	3.9
Aug	6.2	5.3	5.7	0.9	0.2	0.2	-1.2	-0.8	-0.8	5.9	4.7	5.0
Sep	6.8	7.8	6.0	1.1	0.0	0.5	-0.7	-0.9	-0.7	7.3	6.9	5.9
Oct	6.7	7.5	4.9	0.7	-0.3	0.1	-0.5	-0.5	-0.8	7.0	6.7	4.2
Nov	8.2	8.6	5.5	0.1	-0.7	-0.5	-0.3	-0.9	-0.8	7.9	7.0	4.2
Dec	9.7	8.9	5.2	0.4	-0.6	0.1	-0.2	-0.9	-0.8	9.9	7.4	4.6
Jan	5.1	5.5	-0.8	0.5	-0.6	0.1	-0.2	-1.1	-1.1	5.4	3.7	-1.8
Feb	5.2	6.0	-1.1	0.4	-0.7	0.3	-0.6	-1.6	-1.4	5.1	3.8	-2.3
Mar	7.0	9.0	1.7	1.7	0.2	1.4	-0.2	-1.4	-1.6	8.4	7.8	1.5

Note: Figures may not sum precisely because of rounding.

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(draft)

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(Until 11.30am 20 April 1988)

## SUMMARY OF LINE TO TAKE

PSBR in March provisionally £3.8 billion. PSBR for 1987-88 provisionally a net repayment of £3.6 billion, a slightly higher repayment than forecast on Budget day. Provisional outturn equivalent to  $\frac{3}{4}$  to 1 per cent of money GDP.

### 1. March PSBR

#### Background

City forecasts for the PSBR in March average £3.4 billion. Range is from £2.8 billion to £4.3 billion. Provisional outturn for March a little lower than implied by 1988 FSBR:

	Implied by 1988 FSBR	£ billion Provisional Outturn
CGBR(0)	3.0	2.8
LABR	1.2	1.2
PCBR	0.1	-0.1
	<hr/>	<hr/>
PSBR	4.3	3.8

PSBR in March is always high, as result of end-year surge in central government expenditure, and high local authorities borrowing. PSBR in March 1988 £0.5 billion higher than in March 1987. Some special factors this year - redemption of index linked stock, and higher than average national insurance benefit payments (5 Thursdays, timing of Easter).

#### Line to take

PSBR in March was £3.8 billion, a little higher than in the previous year. Borrowing always high in March, because of end-year surge in public expenditure and high local authorities borrowing.

### 2. PSBR, 1987-88

#### Background

#### Published PSBR forecasts (£ billion)

1987 FSBR	1987 AS	1988 FSBR	Provisional outturn
3.9	1.0	-3.1	-3.6



Line to take

PSBR for 1987-88 was provisionally net repayment of £3.6 billion. Outturn £7½ billion lower than forecast in 1987 FSBR mainly due to higher than expected receipts.

3. Comparison with 1988 FSBR Forecast

Background

1988 FSBR had forecast for PSBR in 1987-88 of minus £3.1 billion. Outturn is £0.5 billion lower (ie. a higher net repayment). All sectoral components of PSBR lower than forecast - CGBR(0) £0.2 billion lower, LABR £0.1 billion lower, PCBR £0.2 billion lower.

Error in 1988 FSBR estimated outturn smaller than past average (see Annex).

Line to take

PSBR for 1987-88 £0.5 billion lower (ie. a higher repayment) than forecast in 1988 FSBR. No single explanation of difference - net borrowing by central government, local authorities and public corporations all a little lower than forecast. March always a difficult month to forecast because of uncertainty about size of end-year surge in central government expenditure and local authority borrowing.

Smaller error than past average and smaller error than two previous years.

4. Undershoot of 1988 FSBR estimate for 1987-88 implies FSBR forecast for 1988-89 PSBR too high?

Line to take

*No conclusions can be drawn from this for 1988-89 PSBR/PSBR.*  
~~No. Error in 1988 FSBR estimate of outturn for year just ending smaller than past average. Have always stressed margins of error on PSBR forecasts. Major uncertainties in both directions.~~

5. Privatisation proceeds in 1987-88

Background

Privatisation proceeds in 1987-88 £5.1 billion, compared with £4.4 billion in 1987-88. Close to projection of £5 billion in 1987 FSBR.

Line to take

Net privatisation proceeds in March were close to zero. Total for 1987-88 was £5.1 billion - close to earlier projections.

6. Consolidated Fund Revenues

Background

Consolidated Fund Revenues in 1987-88 - % increase

	1987 FSBR	1988 FSBR	Provisional outturn
Total	5 $\frac{3}{4}$	10 $\frac{3}{4}$	10 $\frac{1}{2}$
of which:			
Inland Revenue	7 $\frac{1}{2}$	12 $\frac{1}{2}$	13
Customs	6 $\frac{1}{2}$	8 $\frac{3}{4}$	9
Other	-2	10 $\frac{3}{4}$	5 $\frac{1}{2}$

"Other" revenues only about 10 per cent of total Consolidated Fund revenues. Estimates can be volatile as they depend partly on precise timing of transfer of funds within central government.

NB Full details of Consolidated Fund revenues in Table 6B.3 in 1988 FSBR.

Line to take

Consolidated Fund revenues in 1987-88 £123.0 billion, 10 $\frac{1}{2}$  per cent up on same period last year. Very close to figure in 1988 FSBR.

7. Inland Revenue Receipts

Background

1987 FSBR forecast 7 $\frac{1}{2}$  per cent increase in IR revenues in 1987-88. 1988 FSBR puts increase at 12 $\frac{1}{2}$  per cent. 1987-88 outturn in press notice 13 per cent rise on previous year. Detailed estimates of composition will be published in May Financial Statistics (table 3.13).

Line to take

Receipts for 1987-88 £64.5 billion, 13 per cent up on previous year.

A little higher than figure in 1988 FSBR. Receipts about £5 billion higher than forecast in 1987 FSBR mainly due to higher income tax and PRT.

## 8. Customs and Excise Receipts

### Background

1987 FSBR forecast  $6\frac{1}{2}$  per cent rise in Customs and Excise receipts in 1987-88. 1988 FSBR put increase at  $8\frac{3}{4}$  per cent. 1987-88 outturn in press notice rise of 9 per cent on previous year. Detailed estimates of composition will be published in May Financial Statistics (table 3.14).

### Line to take

Receipts for 1987-88 £44.7 billion, 9 per cent up on same period last year. Close to figure in 1988 FSBR but nearly £1 billion higher than forecast in 1987 FSBR mainly due to higher than forecast VAT.

## 9. Supply Expenditure

### Background

1987 FSBR gave a figure for provision for supply in 1987-88 but not a forecast of outturn because public expenditure Reserve was not allocated to individual components of expenditure, (but public expenditure total used in PSBR forecast assumed that the Reserve was fully spent). 1988 FSBR gives estimated outturn for supply in 1987-88 of £105.3 billion, a  $3\frac{3}{4}$  per cent increase on 1986-87.

### Line to take

Provisional outturn for supply expenditure in March £10.9 billion. Total for 1987-88 (provisional £105.2 billion) up  $3\frac{3}{4}$  per cent on same period last year and very close to estimated outturn in 1988 FSBR.

## 10. Central Government Borrowing

### Background

CGBR(0) in March was £2.8 billion. For 1987-88 as a whole, CGBR(0) was minus £3.5 billion (1986-87, borrowing of £4.5 billion). 1988 FSBR gives estimated outturn for CGBR(0) of minus £3.2 billion in 1987-88.

### Line to take

CGBR(0) in 1987-88 a net repayment of £3.5 billion. Compares with borrowing of £4.5 billion in previous year.

11. Local Authorities

Background

LABR (provisionally) £1.2 billion in March. For 1987-88 as a whole, LABR of £1.4 billion. (LABR of £0.2 billion for 1986-87). 1988 Budget estimate for LABR in 1987-88 was £1.5 billion.

Line to take

Usual high borrowing in March. LABR for 1987-88 around £1¼ billion higher than for previous year. Provisional outturn little different from estimate in 1988 FSBR.

12. Public Corporations

Background

PCBR (provisionally) a net repayment of £0.1 billion in March. Net repayment of £1.6 billion for 1987-88 as a whole. (Net repayment of £1.4 billion, in 1986-87, when aggregate still included BGC, for most of year, and BA). 1988 Budget estimated outturn for PCBR in 1987-88 was minus £1.4 billion.

Line to take

Provisional outturn for PCBR in 1987-88 little different from previous year and from estimate in 1988 FSBR.

13. Revisions to last month's estimates

Background

No change to April-February PSBR from last month's Press Notice.

Helen Chapman (270-5030)  
PSF Division, HM Treasury

## PSBR FORECAST ERROR : FSBR FORECAST FOR YEAR JUST ENDING

	FORECAST	OUTTURN	ERROR*	
	£ billion	£ billion	£ billion	% money GDP
1967-68	2.0	2.0	-0.1	-0.14
1968-69	0.3	0.5	0.1	0.31
1969-70	-0.6	-0.5	0.1	0.14
1970-71	0.6	0.8	0.2	0.37
1971-72	1.3	1.0	-0.3	-0.56
1972-73	2.9	2.5	-0.3	-0.49
1973-74	4.3	4.4	0.2	0.23
1974-75	7.6	8.0	0.4	0.40
1975-76	10.8	10.6	-0.2	-0.17
1976-77	8.8	8.5	-0.3	-0.21
1977-78	5.7	5.6	-0.2	-0.10
1978-79	9.2	9.2	0.0	0.00
1979-80	9.1	9.9	0.8	0.39
1980-81	13.5	13.2	-0.3	-0.11
1981-82	10.6	8.8	-1.8	-0.69
1982-83	7.5	9.1	1.6	0.57
1983-84	10.0	10.1	0.1	0.02
1984-85	10.5	10.2	-0.3	-0.09
1985-86	6.8	5.7	-1.1	-0.30
1986-87	4.1	3.4	-0.8	-0.20
1987-88	-3.1	-3.6	-0.5	-0.11

## AVERAGE ABSOULUTE ERROR\*\*:

WHOLE PERIOD	0.8	0.50
LAST 5 YEARS (1982-83 to 1986-87)	0.8	0.24

## BIAS\*\*:

WHOLE PERIOD	-0.2	-0.06
LAST 5 YEARS (1982-83 to 1986-87)	-0.1	0.00

\* Outturn less forecast, ie. - indicates PSBR lower than forecast.

\*\* Excluding 1987-88

From: COLIN MOWL  
20 April 1988



**CHANCELLOR**

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List A

List B (distributed at 11.30am, 20 April)

Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Sedgwick  
Mr Peretz  
Mr Odling-Smee  
Mr Watts  
Mrs Todd  
Mr Ritchie  
Miss Chapman

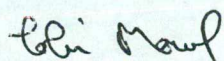
Chief Secretary  
Financial Secretary  
Paymaster General  
Mr J Anson  
Mr Moore  
Mr Culpin  
Mr Turnbull  
Mrs Brown  
Mrs Butler  
Mr R I G Allen

Mr Grice  
Miss O'Mara  
Mr Richardson  
Mr Franklin  
Mrs Ryding  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Calder - IR  
Mr Allen - C and E

**MONTHLY NOTE ON THE PSBR**

I attach a report on the PSBR outturn for March and 1987-88. The outturn will be published by press notice at 11.30am on Wednesday 20 April.

The note also presents provisional monthly profiles for the PSBR and its components for 1988-89, consistent with the FSB forecast for the year as a whole.



COLIN MOWL

## PUBLIC SECTOR BORROWING

### Summary

- As usual in March borrowing by central government and local authorities was high. The PSBR in March is provisionally £3.8 billion.
- The PSBR for 1987-88 is provisionally a net repayment of £3.6 billion, ( $\frac{3}{4}$  to 1 per cent of the latest forecast of money GDP). This is a £0.5 billion larger repayment than the intentionally cautious estimate published in the Financial Statement and Budget Report on March 15.
- The provisional PSBR outturn for 1987-88 is £7½ billion lower than forecast in the 1987 Budget, mainly due to higher receipts, particularly of Inland Revenue taxes.
- The FSBR forecast for the PSBR in 1988-89 - a net repayment of £3.2 billion - was cautious. Provisional monthly profiles for 1988-89 consistent with this forecast are presented in this note. The PSBR profile is similar to 1987-88, although cumulatively the PSBR is lower than 1987-88 for the first five months of the year largely reflecting a higher level of privatisation proceeds (Chart 2). As in 1987-88, the cumulative PSBR does not become significantly negative until January.

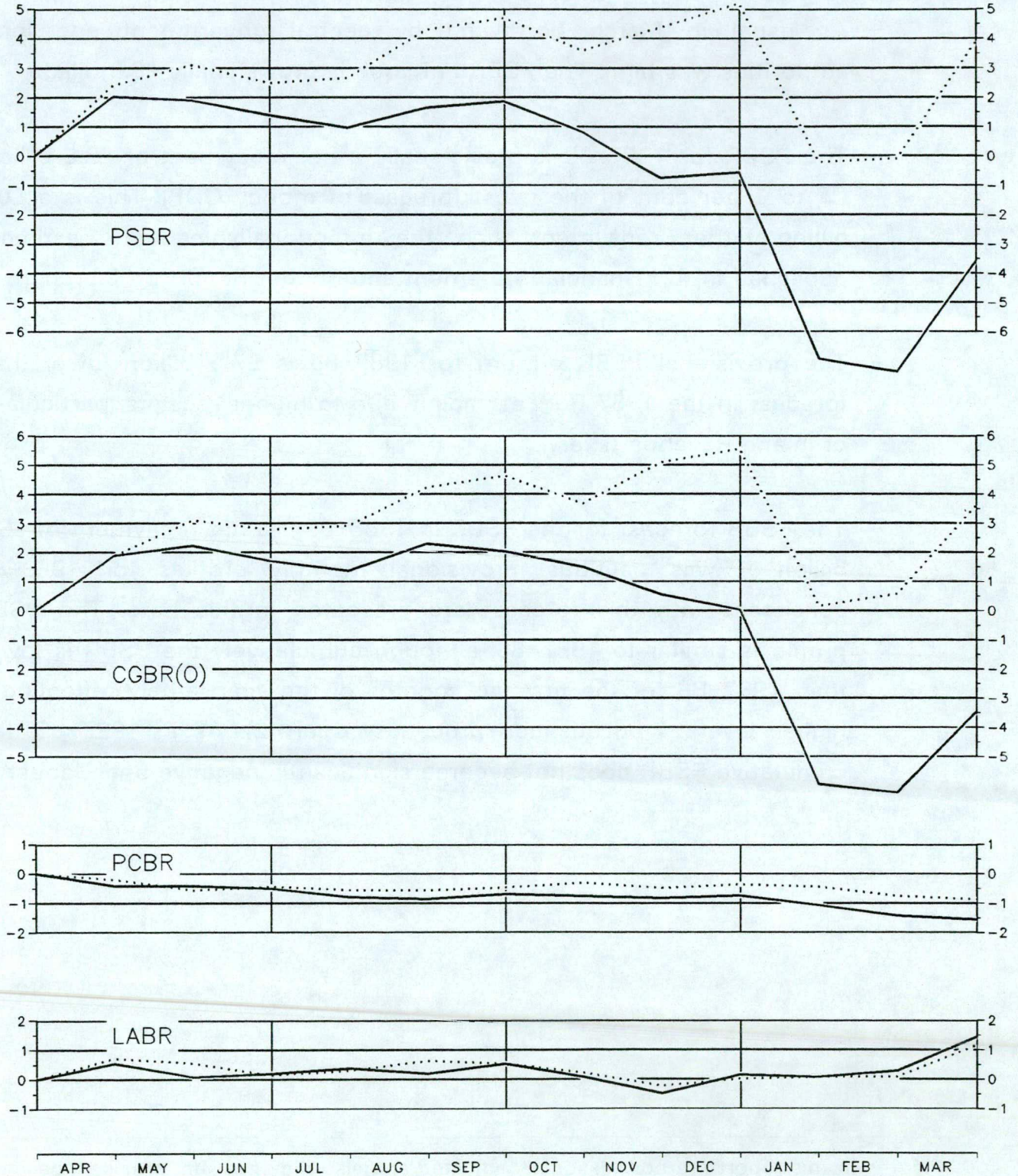
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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : 1987-88: Comparisons with 1987 Budget profiles**

£ billion cumulative

— = Estimated outturn in 1987-88  
 ..... = Budget profile

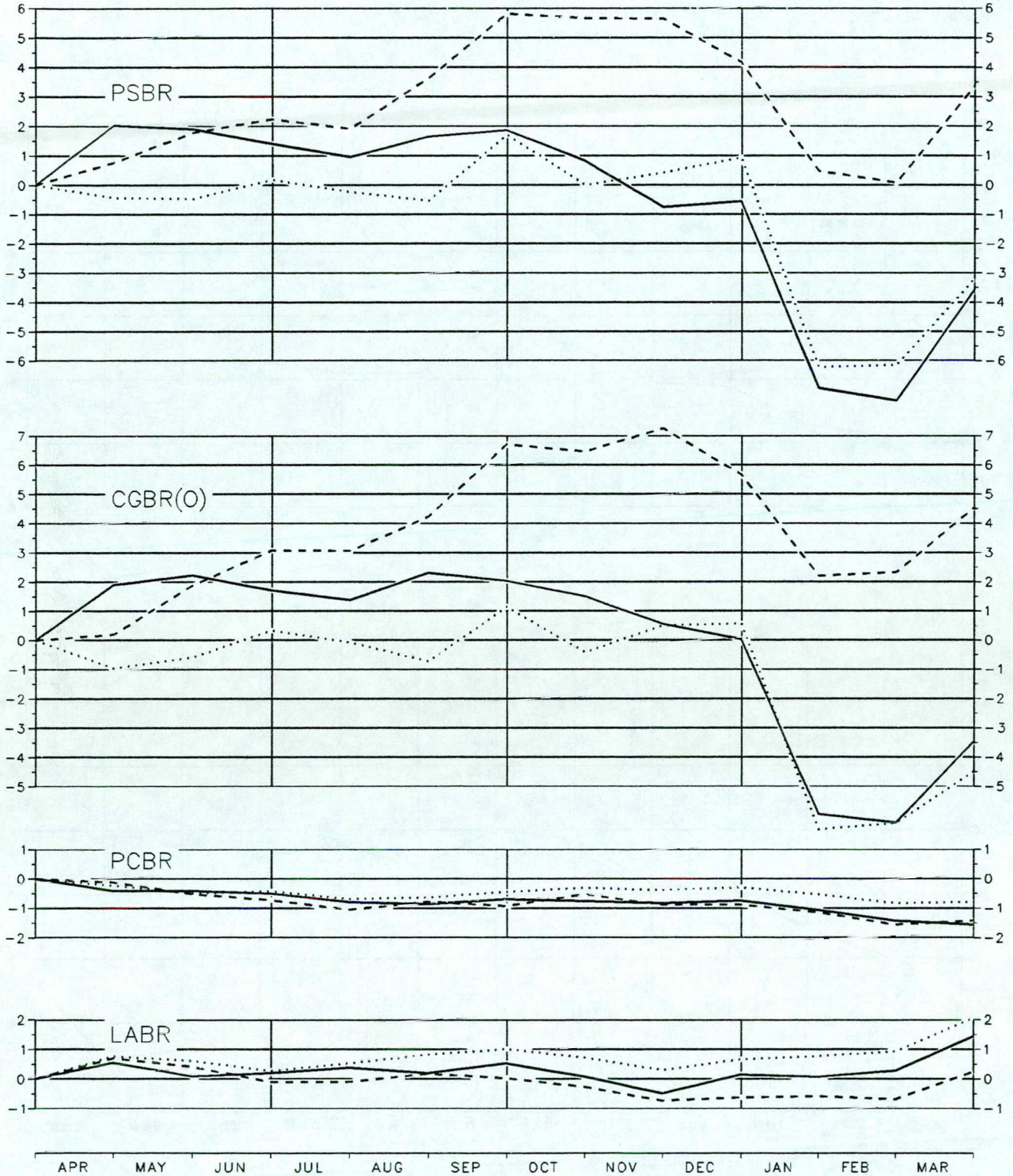




**Chart 2: 1988-89: Comparisons with outturns for 1987-88 and 1986-87**

£ billion cumulative

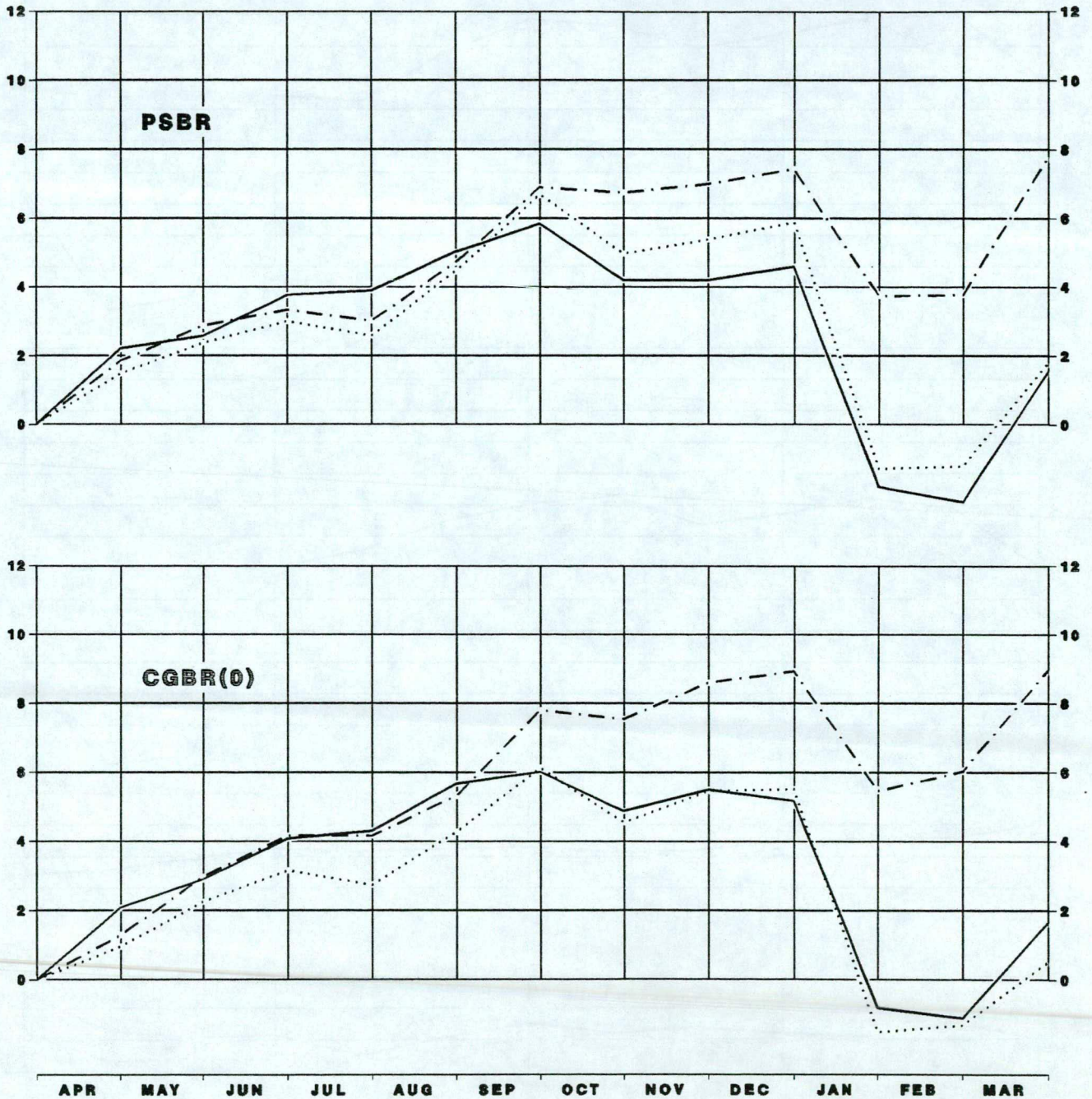
- ..... = 1988-89 profiles
- = 1987-88 estimated outturn
- - - = 1986-87 outturn



**Chart 3: Comparisons excluding privatisation proceeds**

£ billion cumulative

- = Estimated outturn in 1987-88
- - - = 1986-87 outturn
- ..... = 1988-89 Budget profiles



**Borrowing in March and 1987-88**

1. The provisional estimate of the PSBR in March is borrowing of £3.8 billion. As usual in March central government and local authorities were heavy borrowers. The provisional outturn for 1987-88 as a whole is a net repayment of £3.6 billion. This compares with an intentionally cautious forecast published in last month's Budget of a net repayment of £3.1 billion. The differences between the forecast published and the outturn for the PSBR and its components are shown in Table 1 below.

**Table 1: 1987-88 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
1987 Budget forecast	3.9	3.6	1.2	-0.9
1988 FSBR forecast	-3.1	-3.2	1.5	-1.4
Provisional Outturn	-3.6	-3.5	1.4	-1.6
Difference from 1988 FSBR	-0.5	-0.2	-0.1	-0.2

2. On central government's own account there was a net repayment of £3.5 billion in 1987-88. This compares with a forecast net repayment of £3.2 billion in last month's FSBR, and a forecast made at the time of the 1987 Budget of positive borrowing of £3.6 billion. Table 2 shows how the undershoot of last year's Budget forecast came about. Four fifths of the £7 billion undershoot was due to higher than expected receipts, with the remaining one fifth due to lower than expected expenditure.

Table 2: CGBR(O) 1987-88 : Differences from 1987 Budget profile

	£ billion	percentage difference
<b>Receipts</b>		
Inland Revenue	+3.4	+5.6
Customs and Excise	+1.0	+2.2
NICS	+0.6	+2.3
Privatisation Proceeds	+0.1	+2.4
Interest and dividends	+0.2	+2.9
Other receipts	+0.5	+15.1
<b>Total receipts</b>	<b>+5.9</b>	<b>+3.9</b>
<b>Expenditure</b>		
Interest payments	-0.3	-1.7
Departmental expenditure <sup>(1)</sup>	-0.9	-0.7
<b>Total expenditure</b>	<b>-1.2</b>	<b>-0.8</b>
<b>Net effect on CGBR(O)</b>	<b>-7.1</b>	

<sup>(1)</sup> on a cash basis, net of certain receipts and on lending

3. The local authorities' borrowing requirement (LABR) in 1987-88, was £1.4 billion, £0.1 billion lower than forecast in last month's FSBR. As in previous years local authority borrowing was high in March. The 1987-88 outturn was £1¼ billion higher than that recorded for 1986-87.

4. Public corporations made a net repayment of £1.6 billion in 1987-88, a slightly larger repayment than forecast in the 1988 FSBR. The net repayment in 1987-88 was a little larger than in 1986-87 but the underlying reduction in the PCBR is greater than this suggests because the 1986-87 figure includes substantial net repayments by industries which have since been privatised.

5. On the basis of the Budget forecast of money GDP the public sector debt repayment in

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1987-88 is  $\frac{3}{4}$  to 1 per cent of GDP. Excluding privatisation proceeds the PSBR is now estimated to be  $\frac{1}{4}$  to  $\frac{1}{2}$  per cent of GDP.

### **Borrowing in 1988-89 : Monthly Profile**

6. The PSBR for 1988-89 was forecast in the 1988 FSBR to be a net repayment of £3.2 billion. This was an intentionally cautious forecast. The rest of this note presents provisional monthly profiles consistent with this forecast, against which monthly outturns during the year will be monitored. The expenditure profiles in particular are provisional.

7. As in recent years, the PSBR is expected to be front-end loaded as shown in Table 3. Indeed in each of the last two years not only has the PSBR in the first half of the year been high relative to the annual total, it has exceeded it. The same pattern is expected to be repeated in 1988-89. As in 1987-88 it is not until January that the cumulative PSBR becomes significantly negative (see table 6).

**Table 3: Front-end loading**

Cumulative borrowing: £ billion

---

	<u>PSBR*</u>		
	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Apr	0.8 (1.9)	2.0 (2.2)	-0.4 (1.5)
May	1.8 (2.9)	1.9 (2.6)	-0.5 (2.4)
Jun	2.2 (3.3)	1.4 (3.8)	0.2 (3.0)
Jul	1.9 (3.0)	1.0 (3.9)	-0.2 (2.6)
Aug	3.6 (4.7)	1.6 (5.0)	-0.5 (4.5)
Sep	5.8 (6.9)	1.9 (5.8)	1.7 (6.7)
Mar	3.4 (7.8)	-3.6 (1.5)	-3.2 (1.8)

\*excluding privatisation proceeds figures in brackets

8. The profile for privatisation proceeds in 1988-89 is constrained to the 1988 Budget forecast of £5 billion. Just over £5 billion is due to be received from second and third calls plus debentures and redemptions of shares from previous privatisations. The timing of these proceeds is therefore fairly certain. Nearly all of them will be received by the end of August (see paragraph 23). This forecast makes no allowance for any proceeds from BSC. If BSC is privatised in 1988-89, this would produce further proceeds in the second half of the year, giving total privatisation proceeds well in excess of £5 billion.

9. With the exception of PRT, the pattern of Inland Revenue receipts (paragraphs 13-16) is expected to be much the same as in 1987-88, with 59 per cent of the annual total occurring in the second half of the year. As usual this is mainly due to the concentration of corporation tax receipts in the second half. The pattern of Customs and Excise receipts in June to September 1987 was disturbed slightly by industrial action. Abstracting from this they are expected to follow in 1988-89 a similar pattern to 1987-88. The provisional profile of departmental expenditure also follows a similar pattern to 1987-88, although both the starting-year surge in April and end-year surge in March are slightly smaller in 1988-89 than 1987-88.

10. Chart 2 compares the profiles for 1987-88 and 1988-89. The cumulative PSBR in the first five months of 1988-89 is significantly lower than in 1987-88 largely because of the different profiles for privatisation proceeds. Nearly all the proceeds in 1988-89 are assumed by the end of August where as in 1987-88 only two thirds had been received by this time. Excluding privatisation proceeds the monthly PSBR profiles for 1987-88 and 1988-89 follow a more similar pattern (see Chart 3).

#### **Sectoral split of PSBR in 1988-89**

11. A sectoral breakdown of the PSBR forecast was not published in the 1988 FSBR because the public expenditure Reserve was not allocated but the underlying figuring comprised:

- a net repayment of £4.5 billion on the central government's own account, about £1 billion larger repayment than in 1987-88

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- an LABR of £2.1 billion, about £½ billion up on 1987-88
- a net repayment of £0.8 billion by public corporations, £¾ billion smaller repayment than in 1987-88.

### Central Government borrowing in 1988-89

12. Chart 2 shows that the cumulative CGBR(O) is forecast to switch between small amounts of borrowing and repayment, that is to be near to balance, in the first nine months through to December. The surge in Inland Revenue receipts in January will then take the cumulative CGBR(O) into significant net repayment position before the surge of end-year expenditure and borrowing in March reduces it. The peak of repayment in January is forecast to be about £1 billion higher than in January 1988 and borrowing in March to be £1 billion lower. Notes on the profiles for the main items are as follows.

#### a) Inland Revenue

13. The most important month for Inland Revenue receipts is January, when receipts of £13.7 billion, 20 per cent of the total for the year, are expected. January is the largest month for both income tax (13 per cent of the annual total) and corporation tax (38 per cent of the annual total). The next two most important months for Inland Revenue receipts are July (the largest month for Schedule D income tax) and October (the second largest month for CT accounting for around 16 per cent of the annual total).

14. The projected monthly profile for Inland Revenue receipts follows, for most taxes, a similar monthly pattern to the outturn for 1987-88. The main exception is PRT, where the system of paying monthly instalments based on oil prices in an earlier period, with a correction payment every six months to bring the total tax paid for the six month period into line with oil prices and production in that period, means that receipts in September and March can fluctuate wildly from one year to the next. The profile of PRT receipts also reflects repayments of APRT, which vary considerably in size and generally occur in March or September.

15. In September 1987 there was a large correction payment, which boosted PRT receipts

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for the month to £0.9 billion, nearly 40 per cent of the annual total. By contrast, the profile for 1988-89 shows a net repayment of PRT plus APRT of £0.3 billion for September. This is mainly because of an expected repayment of £320 million APRT; in September 1987 there was no repayment of APRT. In addition the payment of PRT is expected to be small reflecting the projected reduction in sterling oil prices and production between the second half of 1987 and the first half of 1988. Had it not been for this the PRT forecast payment in September would have been several £100 million higher. The profile is based on the Budget assumptions for dollar oil prices and the exchange rate. Since the Budget the sterling oil price has on average been £0.6 per barrel higher than assumed in the FSBR and is currently just over £1 a barrel higher. If the present sterling oil price were maintained for the remainder of the second quarter, the repayment in September would be reduced by about £100 million.

16. The other major uncertainty about the Inland Revenue profile, apart from the size of PRT correction payments, is the distribution of mainstream corporation tax payments between October and January. In 1987-88 rather more was received in October and rather less in January than assumed in the original profile. The 1988-89 profile assumes a monthly pattern similar to 1987-88.

b) National Insurance Contributions

17. The path for National Insurance Contributions is little changed from 1987-88. There is a peak in January, as with Income Tax, because the bulk of National Insurance contributions are collected alongside PAYE.

c) Customs and Excise

18. Customs and Excise receipts are more evenly spread over the year than are Inland Revenue receipts. The largest month for receipts, November, is projected to account for just over 10 per cent of the annual total. The most important single influence on the monthly pattern of receipts is the amount of VAT received. Traders pay VAT every three months, but the group of traders paying in May, August, November and February is very much larger (in terms of tax paid) than the other two groups of traders.



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19. Pre-Budget forestalling behaviour, and the restrictions on clearances introduced to counteract it, have a significant effect on the monthly pattern of tobacco duty receipts, with high receipts in January (reflecting high clearances in December, the last month before restrictions apply) and in April (reflecting high clearances in March, in the weeks immediately prior to the Budget). The precise amount of forestalling is always difficult to anticipate.

20. Receipts of Customs and Excise taxes in summer 1987 were disrupted a little by industrial action - receipts were increased by £0.1-£0.2 billion in both June and September and reduced by similar amounts in July and August. Adjusting for this there are no substantial differences between the assumed monthly profile for 1988-89 and that in 1987-88. On forestalling, the profile assumes similar behaviour to 1987-88 - and thus, implicitly, a similar date for the Budget.

### d) Interest and dividend receipts

21. The profile for interest and dividend receipts is similar to 1987-88, with high receipts in September and March, the main months for interest receipts from NLF lending to local authorities and public corporations. Following last years sale of HMG's remaining BP shares, the only significant dividend receipts in 1988-89 are from HMG's residual shareholding in BT. These are assumed to total £350 million and are due to be received in September and February.

### e) Departmental Expenditure on a cash basis

22. The profile of departmental expenditure is provisional and may be revised later this month following analysis of further information due from departments. The usual profile is for relatively high levels of spending in April and March. April reflects the surge in expenditure at the beginning of the financial year when departments are less immediately constrained by cash limits. March reflects the end-year surge in expenditure as departments attempt to spend up to their cash limits. The provisional profile has slightly smaller April and March peaks than occurred in 1987-88. A full analysis will be circulated once the figures have been finalised.

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f) Privatisation proceeds

23. The timing of the assumed £5 billion privatisation proceeds is as follows:

April - £1.8 billion from British Gas third call and debentures;

May - £0.9 billion from BAA second call and redemption of BT preference shares;

August - £2.2 billion from BP second call.

g) Interest payments

24. The profile of interest payments on the National Debt is similar to 1987-88 with high payments in July and January and low payments in June and December largely reflecting the timing of interest payments on past issues of gilt-edged securities. Interest payments in March 1989 will be some £¼ billion lower than March 1988 because March 1988 included £¼ billion capital uplift on the first maturity of an index-linked stock. No index-linked stocks are due to mature in 1988-89.

Local Authority borrowing in 1988-89

25. The monthly profile for the LABR follows the seasonal pattern of previous years. The main feature of the profile is the usual high net borrowing in April 1988 and March 1989, the months of low rate income.

Public Corporations borrowing in 1988-89

26. The forecast profile is constructed from profiles for individual industries. It should be noted, however, that the outturn PCBR is constructed partly from the banking sectors' counterpart data for public corporations as a whole. It will not be possible, therefore, to reconcile fully the PCBR outturn with figures for individual industries.

27. The profile for 1988-89 is provisional. In general, for individual industries, it follows the pattern of previous years - this is not necessarily true of the total because in previous years this included borrowing by industries now privatised. None of the individual monthly




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PCBR figures for 1988-89 are large - all are within plus or minus £¼ billion. Repayments are assumed to take place in April, May, July, January and February, largely because of repayments by the electricity industry, but also in May, July and February, because of repayments by the Post Office.

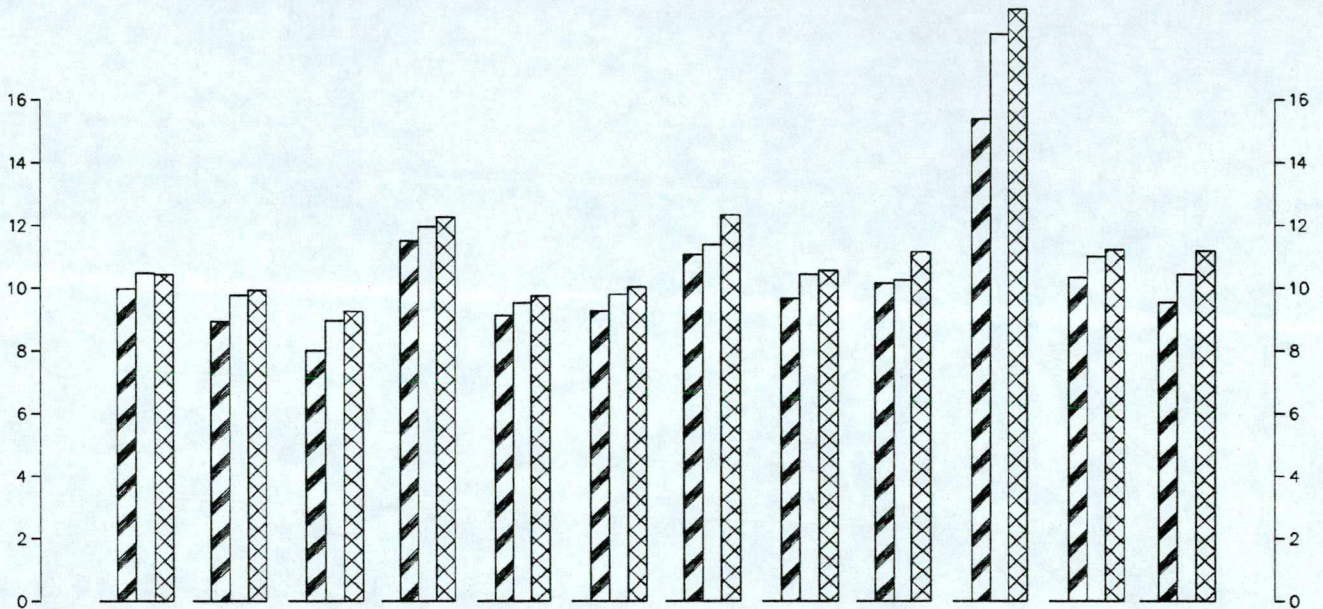
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**Chart 4: Components of central government receipts and expenditure**

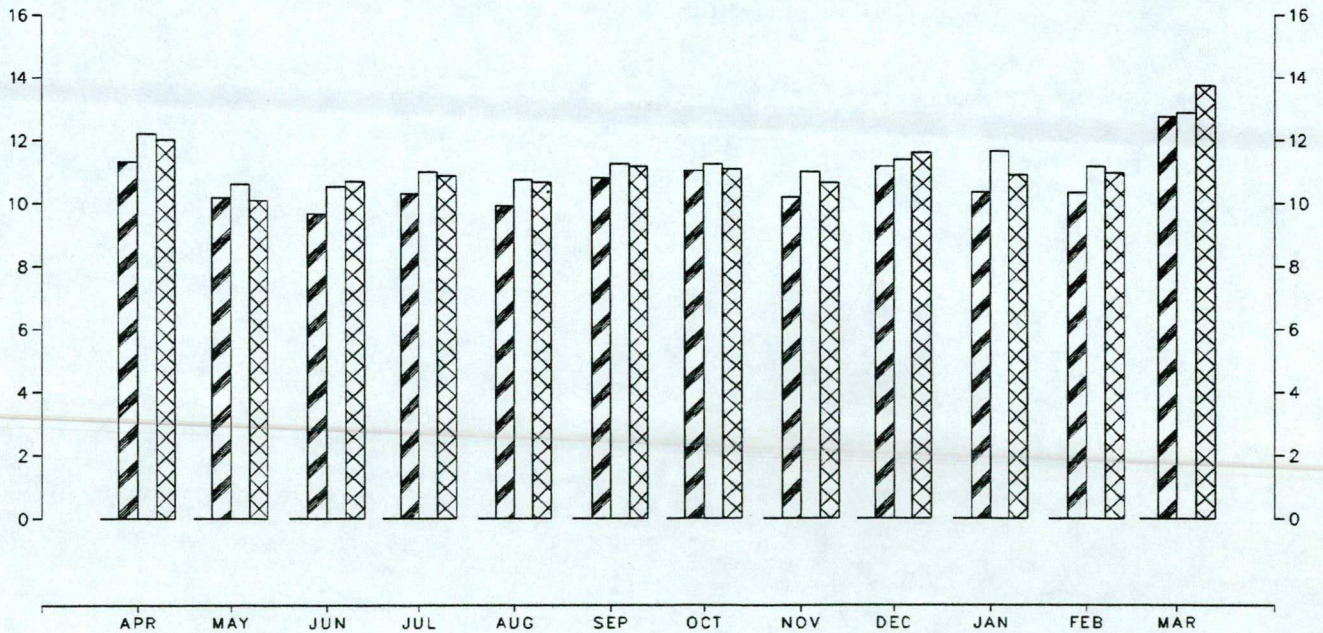
£ billion

-  = 1987-88: Outturns
-  = 1987-88 Budget forecasts
-  = Outturn in 1986-87

**(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS**



**(II) DEPARTMENTAL EXPENDITURE**



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**Table 4:1987-88:Outturns  
(1987 Budget profiles in italics for comparison)**

\*billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1987-88								
Apr	<b>2.0</b>	<i>2.4</i>	<b>1.9</b>	<i>1.9</i>	<b>0.5</b>	<i>0.7</i>	<b>-0.4</b>	<i>-0.2</i>
May	<b>-0.1</b>	<i>0.7</i>	<b>0.3</b>	<i>1.2</i>	<b>-0.5</b>	<i>-0.2</i>	<b>-</b>	<i>-0.4</i>
Jun	<b>-0.5</b>	<i>-0.6</i>	<b>-0.5</b>	<i>-0.3</i>	<b>0.1</b>	<i>-0.4</i>	<b>-0.1</b>	<i>0.1</i>
Jul	<b>-0.4</b>	<i>0.2</i>	<b>-0.3</b>	<i>0.1</i>	<b>0.2</b>	<i>0.2</i>	<b>-0.3</b>	<i>-0.1</i>
Aug	<b>0.7</b>	<i>1.6</i>	<b>0.9</b>	<i>1.3</i>	<b>-0.2</b>	<i>0.3</i>	<b>-0.1</b>	<i>-</i>
Sep	<b>0.2</b>	<i>0.4</i>	<b>-0.3</b>	<i>0.4</i>	<b>0.3</b>	<i>-0.1</i>	<b>0.2</b>	<i>0.1</i>
Oct	<b>-1.0</b>	<i>-1.1</i>	<b>-0.5</b>	<i>-1.0</i>	<b>-0.5</b>	<i>-0.3</i>	<b>-0.1</b>	<i>0.2</i>
Nov	<b>-1.6</b>	<i>0.8</i>	<b>-0.9</b>	<i>1.4</i>	<b>-0.6</b>	<i>-0.5</i>	<b>-0.1</b>	<i>-0.2</i>
Dec	<b>0.2</b>	<i>0.8</i>	<b>-0.5</b>	<i>0.5</i>	<b>0.6</b>	<i>0.2</i>	<b>0.1</b>	<i>0.1</i>
Jan	<b>-6.4</b>	<i>-5.4</i>	<b>-6.0</b>	<i>-5.4</i>	<b>-0.1</b>	<i>0.1</i>	<b>-0.3</b>	<i>-0.1</i>
Feb	<b>-0.4</b>	<i>0.1</i>	<b>-0.3</b>	<i>0.4</i>	<b>0.2</b>	<i>-</i>	<b>-0.4</b>	<i>-0.3</i>
Mar	<b>3.8</b>	<i>4.0</i>	<b>2.8</b>	<i>3.0</i>	<b>1.2</b>	<i>1.1</i>	<b>-0.1</b>	<i>-0.1</i>
Cumulative								
Apr	<b>2.0</b>	<i>2.4</i>	<b>1.9</b>	<i>1.9</i>	<b>0.5</b>	<i>0.7</i>	<b>-0.4</b>	<i>-0.2</i>
May	<b>1.9</b>	<i>3.1</i>	<b>2.2</b>	<i>3.1</i>	<b>0.1</b>	<i>0.6</i>	<b>-0.4</b>	<i>-0.6</i>
Jun	<b>1.4</b>	<i>2.5</i>	<b>1.7</b>	<i>2.8</i>	<b>0.2</b>	<i>0.1</i>	<b>-0.5</b>	<i>-0.4</i>
Jul	<b>1.0</b>	<i>2.7</i>	<b>1.4</b>	<i>2.9</i>	<b>0.4</b>	<i>0.3</i>	<b>-0.8</b>	<i>-0.6</i>
Aug	<b>1.6</b>	<i>4.3</i>	<b>2.3</b>	<i>4.2</i>	<b>0.2</b>	<i>0.6</i>	<b>-0.9</b>	<i>-0.6</i>
Sep	<b>1.9</b>	<i>4.7</i>	<b>2.0</b>	<i>4.6</i>	<b>0.5</b>	<i>0.5</i>	<b>-0.7</b>	<i>-0.5</i>
Oct	<b>0.8</b>	<i>3.6</i>	<b>1.5</b>	<i>3.7</i>	<b>0.1</b>	<i>0.2</i>	<b>-0.8</b>	<i>-0.3</i>
Nov	<b>-0.7</b>	<i>4.4</i>	<b>0.6</b>	<i>5.1</i>	<b>-0.5</b>	<i>-0.2</i>	<b>-0.8</b>	<i>-0.5</i>
Dec	<b>-0.6</b>	<i>5.2</i>	<b>-</b>	<i>5.5</i>	<b>0.1</b>	<i>-</i>	<b>-0.7</b>	<i>-0.4</i>
Jan	<b>-6.9</b>	<i>-0.2</i>	<b>-5.9</b>	<i>0.2</i>	<b>0.1</b>	<i>0.1</i>	<b>-1.1</b>	<i>-0.4</i>
Feb	<b>-7.4</b>	<i>-0.1</i>	<b>-6.2</b>	<i>0.6</i>	<b>0.3</b>	<i>0.1</i>	<b>-1.4</b>	<i>-0.8</i>
Mar	<b>-3.6</b>	<i>3.9</i>	<b>-3.5</b>	<i>3.6</i>	<b>1.4</b>	<i>1.2</i>	<b>-1.6</b>	<i>-0.9</i>

**Table 5: PSBR for 1987-88 - comparisons with 1986-87 and 1987 Budget profile**

£ billion

	1986-87	1987-88		Differences from	
	Outturn	1987 Budget profile	Latest update <sup>(1)</sup>	1986-87 outturn	1987 Budget profile
		1	2	3	3-1
Apr	0.8	2.4	<b>2.0</b>	1.3	-0.4
May	1.0	0.7	<b>-0.1</b>	-1.1	-0.8
Jun	0.5	-0.6	<b>-0.5</b>	-1.0	0.1
Q2	2.2	2.5	<b>1.4</b>	-0.8	-1.1
Jul	-0.3	0.2	<b>-0.4</b>	-0.1	-0.6
Aug	1.7	1.6	<b>0.7</b>	-1.0	-0.9
Sep	2.2	0.4	<b>0.2</b>	-2.0	-0.2
Q3	3.6	2.2	<b>0.5</b>	-3.1	-1.7
Oct	-0.2	-1.1	<b>-1.0</b>	-0.9	0.1
Nov	-	0.8	<b>-1.6</b>	-1.6	-2.4
Dec	-1.5	0.8	<b>0.2</b>	1.7	-0.6
Q4	-1.6	0.5	<b>-2.4</b>	-0.8	-2.9
Jan	-3.7	-5.4	<b>-6.4</b>	-2.7	-1.0
Feb	-0.4	0.1	<b>-0.4</b>	-	-0.6
Mar	3.3	4.0	<b>3.8</b>	0.5	-0.2
Q1	-0.8	-1.3	<b>-3.0</b>	-2.2	-1.7
Cumulative					
Apr	0.8	2.4	<b>2.0</b>	1.3	-0.4
May	1.8	3.1	<b>1.9</b>	0.1	-1.2
Jun	2.2	2.5	<b>1.4</b>	-0.8	-1.1
Jul	1.9	2.7	<b>1.0</b>	-1.0	-1.7
Aug	3.6	4.3	<b>1.6</b>	-2.0	-2.6
Sep	5.8	4.7	<b>1.9</b>	-3.9	-2.8
Oct	5.7	3.6	<b>0.8</b>	-4.8	-2.8
Nov	5.6	4.4	<b>-0.7</b>	-6.4	-5.1
Dec	4.2	5.2	<b>-0.6</b>	-4.7	-5.8
Jan	0.5	-0.2	<b>-6.9</b>	-7.4	-6.7
Feb	0.1	-0.1	<b>-7.4</b>	-7.5	-7.3
Mar	3.4	3.9	<b>-3.6</b>	-6.9	-7.5

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**Table 6: Borrowing requirement monthly profiles 1988-89**  
(1987-88 outturns in italics for comparison)

£ billion

	PSBR		CGBR(O)		LABR		PCBR	
<b>1988-89</b>								
Apr	-0.4	2.0	-1.0	1.9	0.8	0.5	-0.2	-0.4
May	-	-0.1	0.4	0.3	-0.2	-0.5	-0.3	-
Jun	0.6	-0.5	0.9	-0.5	-0.3	0.1	0.1	-0.1
Jul	-0.4	-0.4	-0.4	-0.3	0.3	0.2	-0.3	-0.3
Aug	-0.3	0.7	-0.6	0.9	0.3	-0.2	0.1	-0.1
Sep	2.2	0.2	1.9	-0.3	0.2	0.3	0.2	0.2
Oct	-1.7	-1.0	-1.6	-0.5	-0.3	-0.5	0.1	-0.1
Nov	0.4	-1.6	0.9	-0.9	-0.4	-0.6	-0.1	-0.1
Dec	0.5	0.2	0.1	-0.5	0.4	0.6	0.1	0.1
Jan	-7.2	-6.4	-7.0	-6.0	0.1	-0.1	-0.2	-0.3
Feb	0.1	-0.4	0.2	-0.3	0.2	0.2	-0.3	-0.4
Mar	2.9	3.8	1.8	2.8	1.1	1.2	-	-0.1
<b>Cumulative</b>								
Apr	-0.4	2.0	-1.0	1.9	0.8	0.5	-0.2	-0.4
May	-0.5	1.9	-0.6	2.2	0.6	0.1	-0.5	-0.4
Jun	0.2	1.4	0.3	1.7	0.3	0.2	-0.4	-0.5
Jul	-0.2	1.0	-0.1	1.4	0.5	0.4	-0.7	-0.8
Aug	-0.5	1.6	-0.7	2.3	0.8	0.2	-0.6	-0.9
Sep	1.7	1.9	1.1	2.0	1.0	0.5	-0.4	-0.7
Oct	-	0.8	-0.4	1.5	0.7	0.1	-0.3	-0.8
Nov	0.4	-0.7	0.5	0.6	0.3	-0.5	-0.4	-0.8
Dec	0.9	-0.6	0.6	-	0.7	0.1	-0.3	-0.7
Jan	-6.2	-6.9	-6.5	-5.9	0.8	0.1	-0.5	-1.1
Feb	-6.1	-7.4	-6.2	-6.2	0.9	0.3	-0.8	-1.4
Mar	-3.2	-3.6	-4.5	-3.5	2.1	1.4	-0.8	-1.6
	<b>Excluding privatisation proceeds</b>				<b>Memo item:</b>			
	<b>PSBR</b>		<b>CGBR(O)</b>		<b>privatisation proceeds</b>			
<b>Apr</b>	1.5	2.2	1.0	2.1	1.9	0.2		
<b>May</b>	0.9	0.4	1.3	0.8	0.9	0.5		
<b>Jun</b>	0.6	1.2	0.9	1.2	-	1.7		
<b>Jul</b>	-0.4	0.1	-0.4	0.2	-	0.6		
<b>Aug</b>	1.9	1.1	1.5	1.4	2.2	0.4		
<b>Sep</b>	2.2	0.8	1.9	0.3	-	0.6		
<b>Oct</b>	-1.7	-1.6	-1.6	-1.1	-	-0.6		
<b>Nov</b>	0.4	-	0.9	0.6	-	1.6		
<b>Dec</b>	0.5	0.4	-	-0.3	-	0.2		
<b>Jan</b>	-7.2	-6.4	-7.0	-6.0	-	-		
<b>Feb</b>	0.1	-0.4	0.2	-0.3	-	-		
<b>Mar</b>	3.0	3.8	1.8	2.8	0.1	-		
<b>Cumulative</b>								
<b>Apr</b>	1.5	2.2	1.0	2.1	1.9	0.2		
<b>May</b>	2.4	2.6	2.3	2.9	2.8	0.7		
<b>Jun</b>	3.0	3.8	3.2	4.1	2.8	2.4		
<b>Jul</b>	2.6	3.9	2.7	4.3	2.8	2.9		
<b>Aug</b>	4.5	5.0	4.3	5.7	5.0	3.4		
<b>Sep</b>	6.7	5.8	6.1	6.0	5.0	4.0		

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Oct	<b>5.0</b>	4.2	<b>4.6</b>	4.9	<b>5.0</b>	3.4
Nov	<b>5.4</b>	4.2	<b>5.5</b>	5.5	<b>5.0</b>	5.0
Dec	<b>5.9</b>	4.6	<b>5.5</b>	5.2	<b>4.9</b>	5.1
Jan	<b>-1.3</b>	-1.8	<b>-1.5</b>	-0.8	<b>4.9</b>	5.1
Feb	<b>-1.2</b>	-2.3	<b>-1.3</b>	-1.1	<b>4.9</b>	5.1
Mar	<b>1.8</b>	1.5	<b>0.5</b>	1.7	<b>5.0</b>	5.1

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TABLE 7

CENTRAL GOVERNMENT TRANSACTIONS - CUMULATIVE  
DIFFERENCES FROM 1987 BUDGET PROFILES

£ billion

	Difference in outturn April-March	
	£ billion	Percentage difference
<b><u>Receipts</u></b>		
Inland Revenue	3.4	5.6
Customs and Excise	1.0	2.2
National Insurance Contributions	0.6	2.3
Privatisation proceeds	0.1	2.4
Interest and dividends	0.2	2.9
Other receipts	0.5	15.1
<b>Total Receipts</b>	<b>5.9</b>	<b>3.9</b>
<b><u>Expenditure</u></b>		
Interest payments	-0.3	-1.7
Departmental expenditure (a)	-0.9	-0.7
<b>Total expenditure</b>	<b>-1.2</b>	<b>-0.8</b>
<b>CGBR(0)</b>	<b>-7.1</b>	<b>..</b>
<b>CGBR(0) excluding privatisation proceeds</b>	<b>-7.0</b>	<b>..</b>
On-lending to LAs	1.1	..
On-lending to PCs	0.1	..
<b>CGBR</b>	<b>-5.8</b>	<b>..</b>

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure  
- = lower receipts, and lower borrowing, lower expenditure

CENTRAL GOVERNMENT TRANSACTIONS  
DIFFERENCES FROM 1988 BUDGET FORECAST

£ billion

	Difference in outturn 1987-1988	
	£ billion	Percentage difference
<b><u>Receipts</u></b>		
Inland Revenue	0.2	0.2
Customs and Excise	0.1	0.2
National Insurance Contributions	0.1	0.3
Privatisation proceeds	0.1	1.5
Interest and dividends	-	0.5
Other receipts	-	0.6
<b>Total Receipts</b>	<b>0.5</b>	<b>0.3</b>
<b><u>Expenditure</u></b>		
Interest payments	-	0.2
Departmental expenditure (a)	0.2	0.1
<b>Total expenditure</b>	<b>0.2</b>	<b>0.1</b>
<b>CGBR(0)</b>	<b>-0.2</b>	<b>..</b>
<b>CGBR(0) excluding privatisation proceeds</b>	<b>-0.2</b>	<b>..</b>
On-lending to LAs	-1.1	..
On-lending to PCs	0.3	..
<b>CGBR</b>	<b>-1.1</b>	<b>..</b>

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure

- = lower receipts, and lower borrowing, lower expenditure

TABLE 9:

## CONSOLIDATED FUND REVENUES - % changes on year earlier

		APRIL 1987-MARCH 1988	
		(ii) FSBR	(iii) Outturn
1. Total Inland Revenue	7		13
of which: Inccme Tax		3½	8
Corporation Tax (d)		20½	26½
North Sea taxes (c)		-16½	8½
Other (Stamp Duties and Capital Taxes)		13½	24
2. Customs and Excise	6½		9
of which: VAT		9	13
Specific Duties		3	3
Other (e)		7½	12
3. Vehicle Excise Duty	-½		2½
4. Asset Sales	14		14½
5. Other Consolidated Fund Revenue*	-16		3½
6. Timing Adjustment (f)	64½		335½
7. <b>TOTAL CONSOLIDATED FUND REVENUE</b>	5½		10½
Memorandum Items:			
Non North Sea Taxes		7	11
North Sea Oil Taxes and Royalties		-13½	9½

\* This includes oil royalties, EC refunds, coinage receipts and CFERs.

(a) using 1986-87 outturn as a base

(b) using 1986-87 outturn as a base

(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 March

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



From: J ODLING-SMEE

26th April 1988

CHANCELLOR OF THE EXCHEQUER

12/2

cc Sir Peter Middleton  
 Sir Terence Burns  
 Mr Scholar  
 Mr Sedgwick  
 Mr R I G Allen  
 Mr S Davies  
 Mr Melliss  
 Mr Riley  
 Mr Bredenkamp  
 Mr Cropper

Ch  
 OK?  
 AA  
 OK

## WORKING PAPER ON THE CYCLICALLY-ADJUSTED FISCAL DEFICIT

On 12 August last year I sent you a note containing our updated estimates of the cyclically-adjusted PSBR and some comments on the various arguments that have been made about how cyclically-adjusted measures should be used in policy and economic analysis. You commented that it poured a useful douche of cold water on the practical usefulness of such measures.

2. Attached to the note was a longer paper which went into some of the technical arguments in a little more detail. We discussed this with the Academic Panel in December. Although some members thought that the paper was too critical of cyclically-adjusted measures, others (including Patrick Minford and John Flemming) supported the line it took. On balance there did not seem to be any need to make significant changes to the paper.

3. We would like to bring it out as a working paper by Hugh Bredenkamp, to reach a wider audience. Now that the Budget is over, we propose, if you agree, to do this in the usual low-key way within the next couple of weeks.

00-1

J ODLING-SMEE

# THE CYCLICALLY-ADJUSTED DEFICIT AS A MEASURE OF FISCAL STANCE

by Hugh Bredenkamp<sup>1</sup>

## I INTRODUCTION

1. It has become commonplace in recent years, wherever fiscal policy is discussed, to make use of cyclically-adjusted, structural or "high employment" deficits as a measure of fiscal stance. Different writers have constructed different measures, and applied different interpretations, not always giving full consideration to the conceptual problems involved.

2. The purpose of this paper is to discuss some of the claims that have been made for the cyclically-adjusted (CA) deficit, and to assess its usefulness as a concept. We also review the problems involved in measuring the CA deficit and offer some estimates of our own.

3. The next three sections of the paper correspond to the three possible functions of a budget indicator:

- as an aid to deciding what fiscal stance should be,
- as a means of describing what the stance of fiscal policy is, or has been, and
- as a measure of the effects of fiscal policy on the economy.

We will describe how relevant the CA deficit is to each, with reference to the views of those who have made practical use of the CA deficit. In these three sections, the CA deficit is taken to be some measure of what the actual deficit would be if output were at some cyclical average or high employment level. The adjustment thus removes from the actual deficit fluctuations due to cyclical movements in output, operating through the automatic stabilisers. It is important to bear in mind that these stabilisers, and hence measures of the CA deficit, depend on the particular structure of the tax and benefit system. The actual deficit itself can of course be measured in a variety of ways (the PSBR and public sector financial deficit, in real or nominal terms, being the most widely-used). But the choice between these is a separate issue and is not discussed further in this paper.

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<sup>1</sup> This paper has benefitted greatly from discussions with Treasury colleagues and members of the Treasury's Academic Panel. In particular, I should like to thank Chris Kelly, John Odling-Smee, Peter Spencer and Chris Riley for their comments and contributions. Responsibility for the opinions expressed, and any remaining errors, is mine alone.

4. The fifth section discusses the problems which arise in measuring the two constituent parts of the CA deficit - the gap between actual and trend output, and the resulting adjustment factors for tax revenues and public spending. We then compare estimates using our preferred methodology with those given by the OECD and NIESR, and point out some of the difficulties which measurement error may cause for interpretation of the CA deficit.

5. The final section gives an overall assessment. The main conclusions are as follows:

- the CA deficit may be useful as a benchmark for describing and monitoring fiscal stance over the cycle, and for assessing sustainability;
- for this to be the case, the cycles in economic activity to which the adjustment relates must be measured around some level of activity that is achievable in the medium term, and not some hypothetical level which (for structural or other reasons) could only be reached in the very long run, if at all;
- it should not be assumed that the CA deficit must always be constant over the cycle: given that, typically, the tax and benefit system will not have been designed primarily on the basis of its stabilisation properties, the authorities may wish to exercise discretion in setting policy in the face of cyclical fluctuations, depending on their macroeconomic objectives;
- we do not believe that the CA deficit is a useful measure of discretionary fiscal policy - partly because it is affected by many things outside the government's control (eg unexpected changes in interest rates, oil prices or tax receipts), and partly because acquiescence in changes in the automatic stabilisers is as much an act of policy as a change in tax or benefit rates;
- nor is the CA deficit adequate as a measure of fiscal impact on aggregate demand: it does not take account of the composition of the deficit, the setting of monetary policy, direct effects on private sector behaviour, or of the response of government to cyclical fluctuations (which could induce problems of simultaneity bias);
- the estimates we give for cyclical adjustment factors, based on a moving average measure of trend output, are much smaller than those (eg the OECD's or NIESR's) which use peak-to-peak or potential output as their benchmark; we suggest that the latter have probably overstated the extent to which fiscal stabilisation was possible without undue pressures on inflation;
- we show how statistical estimates of the effects of CA deficits on output may have been biased upwards due to measurement error: this is particularly likely when crude calculations of potential output are used as the basis for cyclical adjustment.

## II THE CA DEFICIT AS A NORMATIVE INDICATOR

6. Two reasons are advanced in support of the argument that the CA deficit may be a more appropriate target for policy than the unadjusted measure (see, for example, Price and Muller (1984)). First, it may be useful as a guide to medium-term or long-run sustainability. Secondly, it may provide a helpful benchmark for setting fiscal policy in the short term. These are discussed in turn in this section. We defer until Section V a discussion of the implications which this interpretation has for the measurement of the CA deficit (especially regarding the choice of a trend output measure).

7. Abstracting from the cyclical element gives a better idea as to the level of the permanent deficit, or that deficit which will persist, on average, over the cycle. It is argued that this measure can be used to form a judgement about the sustainability, or soundness of fiscal policy - and a target for the CA deficit set accordingly.

8. There is one caveat here which has not been brought out in the literature on CA deficits. It is a well-known result in time-series analysis that even variables which follow a pure random walk (ie are equal to their own lagged value, plus a constant, plus a white noise error) can appear to follow cycles around a deterministic trend. These cycles are a statistical artefact, and have no economic significance. A "true" cycle, on the other hand, does have economic significance - in the sense that those forces which, in the past, tended to push the variable back to its long-run trend can be expected to do so again in the future. From the point of view of assessing the sustainability of current fiscal policy, it is therefore crucially important to determine whether output really does follow a systematic cycle (ie is trend-reverting), rather than a random walk masquerading as a cycle. If the latter were true (supporting evidence is provided by Nelson and Plosser (1982), and Campbell and Mankiw (1986) for the US) then there would be no grounds for believing that low output now would tend towards higher (trend) output later - it could just as easily fall further. The argument for removing the cyclical component of the deficit in calculations of long run sustainability (namely that this part of the deficit will disappear in the long-run) would then no longer hold.



9. It is also the case that there are many factors other than the CA deficit which affect the government's solvency. Some examples include:

- the ability of the government to raise finance through the inflation tax on money or (once-for-all) on bonds;
- the balance between current expenditure and worthwhile capital investment (worthwhile in the sense that the investment is both efficient and generates income itself or provides services for which people are prepared to pay higher taxes);
- the effect of the budget on potential output growth; if the composition of taxes and spending has high efficiency costs, the ability of the economy to support a given level of debt is impaired;
- transitory income from exhaustable resources, such as North Sea oil;
- changes in unfunded pension liabilities, or contingent liabilities (eg government credit guarantees).

10. Any meaningful assessment of long-run sustainability must make allowance for all these factors, and this will generally involve some attempt (however crude) at a full balance sheet, or net worth, calculation (see Odling-Smee and Riley (1985)). Cyclical adjustment may be a worthwhile element in this, since the deficits' cyclical components ought to sum to zero in the long-run, and will not therefore affect net worth. But the CA deficit cannot be the sole indicator of long-run sustainability.

11. There may, however, be a stronger case for monitoring the CA deficit in the short to medium-term, once a desired medium term level for the deficit has been set. Some of the factors referred to in paragraph 9 are likely to change only very slowly over time, and could be regarded as constant for the medium term. Others, such as North Sea oil revenues, may fluctuate sharply even in the short term, and would have to be discounted. Assuming that the cycle could be correctly identified, deviations in the CA deficit could then be interpreted, in isolation, as movements away from (or towards) a sustainable fiscal policy.

12. The second argument for using the CA deficit as a normative indicator is that in the normal course of events it is correct to allow the automatic stabilisers to operate. The government might then find it most convenient to set its fiscal plans in terms of a particular path for the CA deficit. This path would have to take account of any desired discretionary changes in fiscal stance, over and above those represented by the automatic stabilisers, as well as of other factors (eg structural factors affecting receipts or expenditure, tax elasticities, oil price movements) expected to affect the deficit.

13. The case for allowing the automatic stabilisers to operate rests on the following points (see Price and Muller (1984)):

- (a) they help to dampen fluctuations in output and money GDP;
- (b) the effect of cyclically high public sector deficits on money demand tends (it is claimed) to be offset by cyclically low private sector credit demand, especially if financial markets are forward looking and do not react unfavourably to purely cyclical fluctuations in borrowing;
- (c) pro-cyclical adjustment to offset the automatic stabilisers (thereby heightening booms and deepening recessions) will fail to control the deficit, ex post, to the extent that it generates offsetting feedback on tax revenues and transfer payments.

Two additional considerations are relevant in the special case where no discretionary changes in fiscal policy are planned:

- (d) disruptive adjustments to real public spending and/or tax rates over the cycle are avoided;
- (e) reliance on the automatic stabilisers alone removes the risk that discretionary counter-cyclical policy is in fact destabilising because of the operational difficulties (eg forecasting errors, difficulty of fine-tuning in general).

14. Against this, it has to be recognised that a constant CA deficit is not necessarily the optimal setting for fiscal policy. Whether or not public sector borrowing and private sector credit requirements move in a precisely offsetting way over the cycle (for a given CA deficit target) is an empirical question; as is the effect of pro-cyclical adjustment of fiscal instruments (tax rates etc) on the ex post deficit.

15. More importantly, in the absence of adjustment costs, the optimal deficit, unlike the CA deficit, will be independent of the institutional factors which distinguish the discretionary from the automatic stabiliser components of fiscal stance. Sometimes it might be appropriate to use discretionary fiscal policy to add to the counter-cyclical impact of the automatic stabilisers, so that the CA deficit would move counter-cyclically and the unadjusted deficit even more so. At other times, for example when a major reduction in inflation was desired, it might be appropriate to use discretionary policy to offset the impact of the automatic stabilisers. This could be achieved by holding the unadjusted deficit unchanged. In practice, if monetary policy is also operated counter-cyclically - so as to share with fiscal policy some of the burden of stabilisation - the choice will depend in part on judgements about the costs of allowing tax rates rather than interest rates to vary over the cycle. Given these complications,

the various factors which determine the optimal path for the deficit can only properly be allowed for in the context of a full macro-economic model, taking into account the setting of monetary policy and the government's macroeconomic objectives.

16. To summarise, in most circumstances it is likely that the optimal policy will imply that the CA deficit should follow a smoother path over the cycle than the actual deficit. This is especially so if the costs of regularly adjusting tax rates and spending plans are substantial and fine-tuning cannot be done efficiently. In extreme cases the optimal policy might be to eschew all discretionary use of fiscal policy and rely on the automatic stabilisers alone.

17. In cases where the optimal policy implied a smoother path for the CA deficit than for the unadjusted deficit, it could in principle be useful to present policy and monitor developments in terms of the CA deficit. If the problems of measurement are not prohibitive, this might make it easier to produce the right responses to unexpected fluctuations in output or money GDP and it would give clearer signals to the private sector about the stance of policy.

### III THE CA DEFICIT AS A DESCRIPTIVE MEASURE

18. The use of the term "discretionary" to distinguish the underlying component of the deficit from the cyclical component implies that the former is within the government's control and the latter is not (or at least not directly). Some studies (eg Biswas et al (1985), Tullio (1986)) have gone on to interpret the discretionary/automatic distinction as having relevance for the effects of fiscal policy. This is discussed in Section IV. The OECD, on the other hand, (prior to Price and Muller) suggested that the CA deficit was a way of identifying ex ante changes in fiscal stance, irrespective of what the effects of such changes were ex post. To quote from the OECD's 1982 Economic Outlook (p41):

".... one objective behind the calculation of the cyclically-adjusted budget is taxonomic: it is useful to know to what extent budget changes are due to passive responses, stemming from the institutional characteristics of the tax and expenditure system, with respect to changes in employment, or to deliberate fiscal decisions by the government".

19. This is, on the face of it, a rather less ambitious claim for the CA deficit than that implied by the other interpretations discussed in this paper. However, even this fairly limited interpretation is flawed.

20. Leaving aside problems of measurement and model dependency, the main criticism of the CA deficit as a device for distinguishing between active and passive changes in fiscal stance is that the definition of the discretionary component is much too broad to be interpreted in this way. Although it excludes cyclical effects, it includes:

- (i) the effects of changes in interest rates, and consequently debt interest payments;
- (ii) the effects of changes in oil prices and exchange rates;
- (iii) the effects of changes in the composition of income and expenditure (measured at "benchmark" output levels, eg potential or mid-cycle GDP);
- (iv) other items like EC contributions or the cost of public sector pay settlements.

21. Arguably, these factors are either de facto out of the government's control, or else are functions of monetary rather than fiscal policy. In any case, changes in the deficit due to, say, changes in the (world) oil price are no more or less discretionary than changes due to cyclical fluctuations in output.

22. Of course, it could be claimed (and has been, by the OECD, in respect of changes due to fiscal drag) that if the authorities acquiesce in a change in the deficit due to a falling oil price, or whatever, then that change can be regarded as discretionary - since its effects could have been offset by changes in tax rates or spending plans. But precisely the same argument can be applied to the case of changes in the deficit due to cyclical fluctuations in output. Depending on the sort of considerations discussed in the previous section, the government may be both willing and able to exercise discretion over the whole deficit, irrespective of the extent to which this involves so-called discretionary changes rather than changes due to the automatic stabilisers. The mix of stabilisers and intervention will vary across countries and over time, depending on the particular institutional framework employed, and this will imply different estimates of the CA deficit for any given unadjusted deficit. The force of this point is recognised by the IMF:

"Consider, for example, two countries alike in all respects save that one has automatic fiscal stabilisers while the other has none. Each is striving to reach the same real output target in the face of a deflationary shock. [In doing so, the] country with the automatic stabilisers will show a smaller discretionary (exogenous) change in its budget than the country without them. Yet, in some sense, fiscal policy has been equally expansionary in both countries" [Heller et al (1986), p2].

23. Strictly speaking, then, it will only be valid to use the CA deficit as an indicator of relative tightening and loosening of fiscal policy for a given set of automatic stabilisers. This may be feasible for consecutive administrations in the same country (or for a particular administration over a period of years), but is unlikely to be so when comparing completely different countries. And, even if CA deficits can be made comparable on this criterion, it is important to recognise that there are a number of factors other than the cycle which can affect the size of the deficit, but which are out of the government's immediate control.

#### IV THE CA DEFICIT AS A MEASURE OF FISCAL IMPACT ON DEMAND

24. Several US empirical studies (eg Eisner and Pieper (1984), Tullio (1986, 1987)) have used the CA deficit explicitly as a measure of fiscal impact on demand - invariably with little or no discussion as to the validity of doing so. NIESR, who also adopt this approach (Biswas et al (1985)), are only slightly more forthcoming. They argue that cyclical adjustment is appropriate because it:

- (a) abstracts from "short-lived cycles", thereby allowing assessment of longer-term movements in fiscal stance, and
- (b) allows for simultaneity - that is, it identifies the effect of the deficit on output by removing the effects of output on the deficit.

25. The implication of the first point is that only longer-term movements in fiscal stance affect the path of output over the cycle. It is not clear why this should be the case. One can envisage a model in which private sector agents are very forward-looking, and (when deciding on their expenditures) discount fluctuations in wealth which will be unwound over the cycle. But if individuals were this forward-looking, it could be argued that they would discount any changes in the deficit, structural or otherwise, for the usual reasons of Ricardian equivalence (anticipating future tax liabilities etc). In this case fiscal deficits, however they were measured, would not affect aggregate demand. In short, although some discounting of the cycle may be justifiable, complete discounting seems too extreme an assumption.

26. The second line of argument, concerning simultaneity, sounds plausible enough (and is probably in the minds of most researchers who use the CA deficit measure in reduced-form output equations). But it is subject to the same general criticism as the taxonomic interpretation discussed in the previous section. The distinction between changes in deficits due to automatic stabilisers and changes due to intervention, though it may shed some light on the institutional framework for tax and expenditure decisions, has no necessary economic significance. To put the point another way, the effect of output on the deficit depends on the government's policy reaction function (ie reacting to changes in output). Under some circumstances, and for reasonably short periods of time, this may be reasonably well-proxied by the automatic stabilisers. But to the extent that governments are not entirely passive in the face of cyclical fluctuations, cyclical adjustment will not altogether avoid the problem of simultaneity between output and the deficit (see section V, and also Tullio (1987)). If the aim is to

avoid simultaneity, there are econometric techniques available (eg instrumental variables) which are preferable to simply removing the direct effect of output on the deficit.

27. Begg (1986) takes a rather different tack, claiming that the CA deficit "should in fact be interpreted as the total impact of stabilisation policy, not merely of its discretionary components". He considers a simple Keynesian model with constant potential output, automatic stabilisers, and a discretionary (closed-loop) element to fiscal policy which is itself a function of the level of output relative to potential. He shows that, in this case, the CA deficit is a function of both discretionary policy and the structure of tax (and benefit) rates, which determine the size of the automatic stabilisers (the algebra is set out in Annex A).

28. However, in the conventional terminology, the automatic stabiliser element of policy is not, as Begg suggests, defined in terms of the level of tax rates (changes in which are clearly discretionary), but as the product of given tax rates and the gap between actual output and benchmark output. The issue is whether excluding this part of the deficit, as the cyclical adjustment process tries to do, leaves one with a better or worse measure of fiscal effects on aggregate demand.

29. The IMF (Heller et al (1986)) also subscribe to the view of the CA deficit as a measure of fiscal impulse, though their approach to cyclical adjustment is a rather idiosyncratic one. For simplicity, they assume that a neutral fiscal stance is one in which tax revenues and government expenditure are maintained as a constant proportion of actual and potential GDP<sup>2</sup> respectively (the proportions being determined in some base year, where actual and potential output are judged to have been equal). In cyclical upturns, this has the effect of ascribing any rise in tax revenues due to progressivity in the tax system, or fall in government expenditure as a result of reduced benefit payments, to the measure of fiscal impulse. The IMF's CA deficit indicator is therefore something of a hybrid, with part of the conventionally-defined automatic stabiliser

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<sup>2</sup> The argument for using potential GDP here is explained in Dernberg (1975) as follows: "when actual output falls short of potential output, the government does not encroach on the share of output available to the private economy if [it maintains expenditure as a share of potential GDP]. Indeed, to lower its expenditure at such a time would, because of multiplier effects, lower even more the output received by the private sector" [p829]. This line of reasoning is rather contentious and leaves unexplained the asymmetrical treatment of tax and expenditure.

included. It is nevertheless subject to the same criticisms as all other CA deficit measures described in this paper.

30. Most writers (OECD (1982), Buiters (1985), Miller (1985)) acknowledge that the distinction between the cyclical and structural components of a given deficit has no relevance for the impact of that deficit on aggregate demand.<sup>3</sup> Indeed, automatic stabilisers, as such, would be completely useless if the cyclical components of the deficit had no effect on demand, as use of the CA deficit in this context implies.

31. A further line of argument, which actually applies not only to the CA deficit but also to the "raw" deficit and the inflation-adjusted deficit measures as well, has been pursued strongly by Buiters (1984, 1985) and Begg (1986). This is that the impact on demand from a change in fiscal stance depends on the interactions between the fiscal instruments and the rest of the economy. It is impossible, therefore, to ignore, for example:

- the level and composition of taxes and spending (separately);
- the determinants of private sector spending (eg the role of wealth, the formation of expectations);
- the stance of monetary policy;
- the inflation tax (hence the use of inflation-adjusted deficits).

32. It follows from this that the only comprehensive measure of fiscal impact on demand would be that obtained from the comparison of two model simulations of alternative fiscal policies, with all the relevant assumptions made explicit. Needless to say, the results would be dependent on the nature of the model and assumptions used, which is why such measures are of limited use in practice.

33. NIESR and OECD both recognise the force of this argument. NIESR makes some allowance for the particular composition of a given deficit by "demand-weighting"

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<sup>3</sup> "... any change in the ex post budget would, in conventional models, have the same (multiplied) effect on the economy whether it was spent as a result of a decision now or (automatically) as a result of a decision in the past" [OECD (1982), p41].



its constituent elements,<sup>4</sup> but admits that the other factors mentioned above have not been allowed for. Their response, and that of the OECD, is that the CA deficit is only one influence on output among many, and its use does not prejudge, for example, the issue of crowding out.

34. It is arguable whether a deficit measure which does not take full account of private sector behaviour and the overall policy framework is a useful analytical concept. But the main point - that cyclical and structural components of the deficit are largely indistinguishable in their effects on demand - holds true in any case. Only in circumstances where the automatic stabilisers adequately represent governments' fiscal responses to fluctuations in output, will it be correct to interpret the CA deficit (demand-weighted or not) as a measure of fiscal impulse.

35. A further implication of this argument is that one should not necessarily regard the maintenance of a given (unadjusted) deficit in the face of cyclical fluctuations as being pro-cyclical. Whether such a policy is pro-cyclical or not depends not on whether some cyclically-adjusted measure of the deficit has changed, but rather on whether the implied compositional changes within the given deficit total have a (net) positive or negative effect on demand. For example, we need to assess whether raising taxes to pay for additional unemployment benefit is expansionary or contractionary. As has been suggested already, such questions can only properly be answered by reference to a fully-articulated macroeconomic model.

36. Given these arguments, it is hard to see why cyclical adjustment of the government deficit should have been so widely accepted as a measure of fiscal stance, whereas, for instance, cyclical adjustment of monetary aggregates as a measure of monetary policy has not. We conclude that, in most circumstances, the actual deficit (suitably instrumented) is a better measure of fiscal policy than the CA deficit.

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<sup>4</sup> ie applying first-round (but long-run) multipliers to the different tax and expenditure categories. See Odling-Smee and Riley (1985) for a discussion of the problems involved in this kind of procedure. Since we are arguing here that the CA deficit is fundamentally flawed as a measure of fiscal impact, demand-weighting is something of a side-issue.

## V MEASURING THE CA DEFICIT

37. The measurement of the cyclically-adjusted deficit can be thought of as having two stages. The first involves making an estimate of the output gap - ie the difference between actual output and the benchmark level of output (relative to which the cycle is defined). In the second stage, it is necessary to calculate how tax revenues and public expenditure would change if the output gap were closed. From this, adjustment factors can be derived which convert actual deficits into cyclically-adjusted deficits.

38. In this section we discuss briefly a number of different methodologies for each of the two stages, and then compare the results of using our preferred methodology with those from some of the suggested alternatives. We also consider the problems that possible measurement error implies for interpretation of the CA deficit.

#### The output gap

39. The methods which have been used to estimate the output gap fall into two broad categories:

- "equilibrium" methods, and
- "time series" methods.

40. The distinguishing feature of equilibrium methods is that they attempt to use economic variables to define the theoretical maximum level of output which the economy could obtain at any given time, if it were to reach equilibrium instantaneously.

41. One example of this approach is to calculate what output would be at full employment, based on an assessment of equilibrium labour supply and trend productivity. There are two problems with this. Firstly, neither equilibrium labour supply nor trend productivity are directly observable, and can only be defined with reference to an economic model of some kind. Secondly, market imperfections, particularly in the labour market, may mean that full employment on this definition can be achieved only in the very long run - or indeed that it may never be attained. Hence, the full employment deficit could significantly underestimate the minimum level of the deficit attainable within a period which is short enough to be called a cycle.

42. An alternative method is to define the maximum sustainable level of employment as being that which is consistent with stable inflation. This deals with the problem of market imperfections, in principle at least, but also makes the measure of the output gap even more model-dependent. The difficulty in obtaining reliable estimates of the NAIRU may explain why very few empirical estimates of the CA deficit are based on this approach.<sup>5</sup>

43. Far more commonly used are the simple time series methods, of which there are three kinds:

- trends derived by interpolating between output peaks;
- fitted trends (ie using regression analysis), and
- moving averages of actual output.

44. The peak-to-peak method is generally interpreted as a proxy (albeit a very crude one) for measurement of true potential output. Since peaks may well occur at a level of employment above the natural rate, there is clearly a risk that this approach will, like the full employment method, exaggerate the contribution of the automatic stabilisers and hence underestimate the CA deficit. For operational purposes, it also suffers from the disadvantage that current estimates of the CA deficit will rely on a forecast of the next peak in output (both of its size and timing).

45. The fitted trend and moving average methods make no pretensions to measure potential output on any definition. They are simply devices for smoothing out temporary fluctuations in actual output, so as to identify the underlying trend. In this role, the moving average method is arguably the more flexible of the two, since it picks up changes in trend automatically (though with a lag). The fitted trend method, in contrast, requires either split-period estimation or ad hoc adjustment if it is to accommodate structural shifts in trend output growth.

46. One feature of the fitted trend and moving average methods, not shared by equilibrium or peak-to-peak methods, is that they guarantee that cyclical fluctuations in output will sum to zero in the long run. What this implies for

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<sup>5</sup> Heller et al (1986) record that, for some countries, the IMF use measures of potential output based on the NAIRU.

the appropriate choice of benchmark output will depend partly upon how the resulting CA deficit figures are to be interpreted. Price and Muller (1984) argue that if one is interested primarily in sustainability, it is necessary that the estimated cyclical components of the deficit cumulate to zero - otherwise long run debt levels will be a function not only of the CA deficit but also of the average size and duration of the cycle. If on the other hand, the CA deficit is viewed as an appropriate target for stabilisation purposes (the aim of stabilisation being to resist divergence between actual and potential output), the cycle should be measured relative to equilibrium output. In this case, cyclical fluctuations will cancel out only by chance.

47. Our view is that, on balance, a centred<sup>6</sup> moving average is the most useful measure of benchmark output. This is partly because it is helpful to know the average or underlying fiscal stance over a complete cycle (which only a deficit measure based on some form of mid-cycle benchmark will provide); but, most importantly, it avoids the risk that the cycle will be defined relative to some notional level of potential output which is only attained, if ever, in the very long run.

#### Adjustment factors

48. The size of the cyclical adjustments to tax revenue and public expenditure depend not only on the size of the output gap, but also on how the composition of output is assumed to differ (if at all) over the cycle. A different mix of consumption and investment, or of wages and profits, for example, could affect the tax revenue generated by a given level of output.

49. In principle, the relationship between cyclical fluctuations in output and changes in its composition will depend on what causes the cycle in the first place. OECD, for example, assume that all cyclical fluctuations can be ascribed to changes in stockbuilding, and estimate other compositional effects using their macroeconomic model (INTERLINK).

50. However, given the likelihood that, at any one time, deviations of output from trend will be the result of a whole range of factors (possibly

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<sup>6</sup> Using a centred moving average means, of course, that (as in the case of the peak-to-peak method) the current value of trend output will depend partly on a forecast. However, it could be argued that the margin of error on a forecast of average future output will be much less than that on a forecast of precisely when the next peak will occur, and at what level of output.

inter-related), we favour the more agnostic approach adopted by NIESR, which assumes no change in the structure of the economy over the cycle.

51. The final stage in the calculation - estimating revenue and expenditure effects - invariably involves the use of relationships from an economic model. Both OECD and NIESR focus in this case on the individual model equations which directly relate changes in output to changes in tax revenues and demand-led expenditure. (The latter requires an assumption about the relationship between output and unemployment.) From these, they obtain point estimates of tax yield and spending elasticities which can be applied to the output gap to generate cyclical adjustment factors.

52. Our preferred approach differs from this in two ways. Firstly, we use full Treasury model simulations, so as to allow for the interaction between output changes and other factors which might affect the public sector deficit - for example, the level of interest rates and the exchange rate.<sup>7</sup> This method also enables us to test the sensitivity of the results to different assumptions about monetary policy and private sector expectations. (In the event, we found that the adjustment factors were not much affected by these assumptions.)

53. Secondly, rather than measuring full-year effects only (as OECD and NIESR do), we allow for the possibility of lags between changes in output and changes in the deficit. Our simulations suggest that a 1 per cent increase in GDP will reduce the budget deficit by around 0.25 per cent of GDP in the first year and by 0.45 per cent in the second and subsequent years.<sup>8</sup>

#### Empirical estimates

54. Chart 1 plots an index for actual GDP over the period 1963-64 to 1987-88 against:

- (i) a five-year centred moving average of GDP;
- (ii) the OECD's estimate of potential GDP (obtained by working backwards from their published cyclical adjustment factors ); and

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<sup>7</sup> These may have indirect as well as direct effects on the deficit (eg via their impact on prices and wages in the economy.)

<sup>8</sup> NIESR's estimate of the full year effect is similar to ours; OECD's is higher, at around 0.6 per cent.

- (iii) NIESR's estimate of potential GDP (which assumes that it equalled actual output in the first quarter of 1973, and grew by 2.7 per cent per annum up to 1973 and at 2 per cent per annum thereafter).

The cyclical adjustment factors implied by these three measures of trend output are shown in Chart 2.

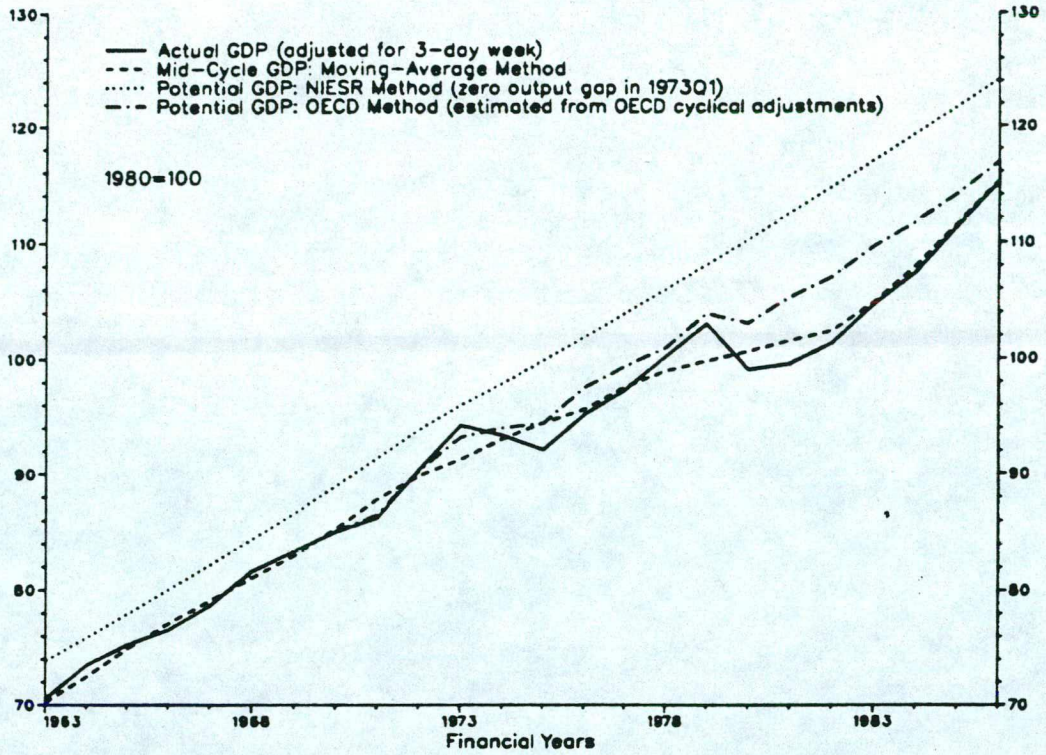
55. Two obvious features in these data stand out. The first is that the turning points for the adjustment factors tend to coincide for all three measures; this simply reflects the fact that, in each case, trend output is a smoothed version of actual output. Secondly, and more significantly, the adjustment factors based on potential output are very much bigger than those based on mid-cycle output - in the early 1980s, by as much as 4 per cent of GDP.

56. Chart 3 plots year-on-year changes in the actual PSBR, the cyclically-adjusted PSBR on the three different bases, and the implied contribution of the automatic stabilisers, all expressed as a share of money GDP. (Annex B gives data for three other deficit measures: the PSBR excluding privatisation proceeds, the public sector financial deficit and the general government financial deficit. The same cyclical adjustment factors are applied to each.) Looking at year-on-year changes, rather than levels, abstracts from the large cumulative divergences between actual and benchmark output which are a feature of the OECD and NIESR measures.

57. Indeed, on this basis, the results from the various cyclical adjustment methodologies are more remarkable for their similarities than for their differences. All three measures indicate that, since the early 1970s, changes in the deficit via the automatic stabilisers have more often than not been accompanied by discretionary changes in the opposite direction. In fact, in most of the last 15 years or so, discretionary changes are sufficiently large to more than offset the automatic stabilisers, implying pro-cyclical fiscal policy even in ex post (ie non-cyclically adjusted) terms.

58. In the late 1960s, by contrast, the automatic stabilisers appear mostly to have been reinforced by discretionary policy. However, it is still the case here, as in subsequent years, that shifts in discretionary policy dominate the automatic stabilisers, in terms of the size of year-to-year changes.

**Chart 1: Actual and Mid-Cycle/Potential Output**



**Chart 2: Alternative Cyclical Adjustments**

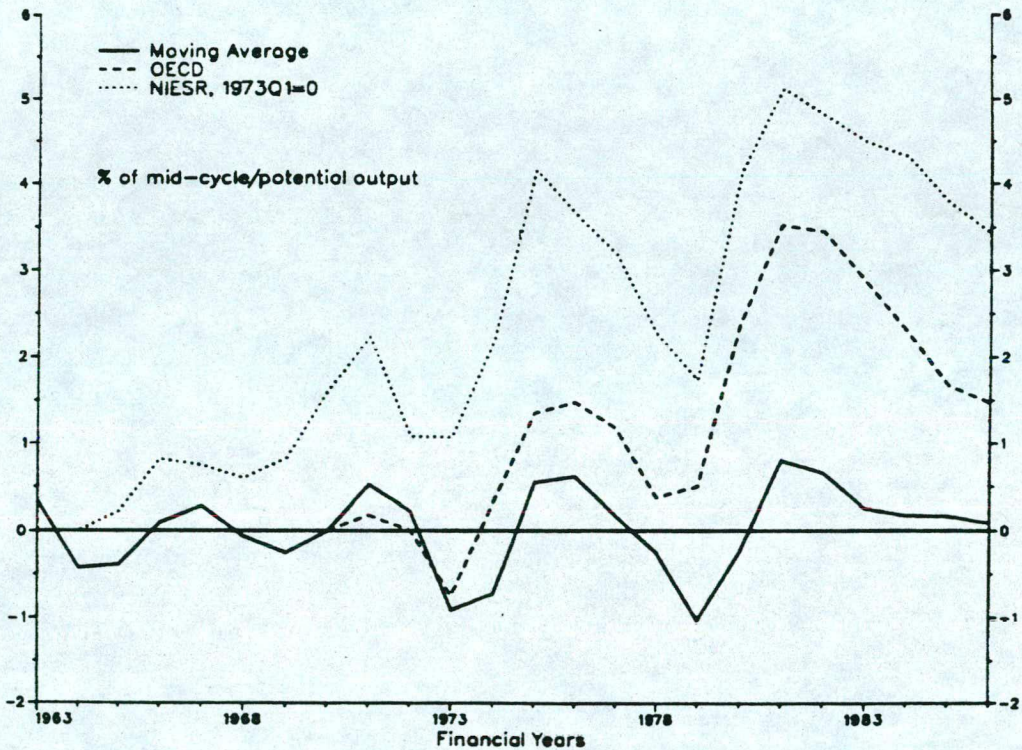


Chart 3A: Changes in PSBR and Cyclically Adjusted PSBR

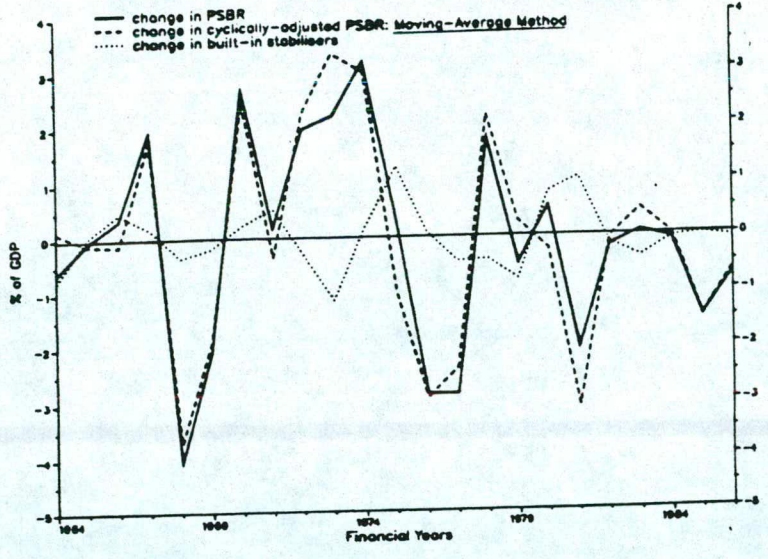


Chart 3B: Changes in PSBR and Cyclically Adjusted PSBR

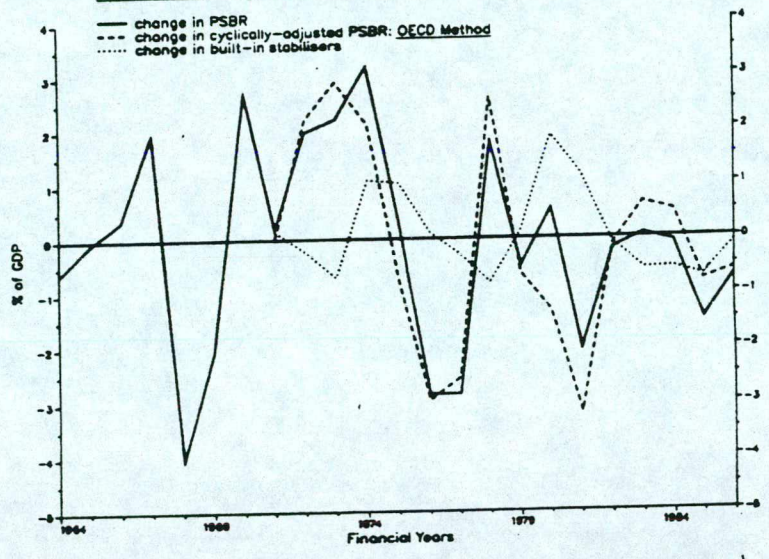
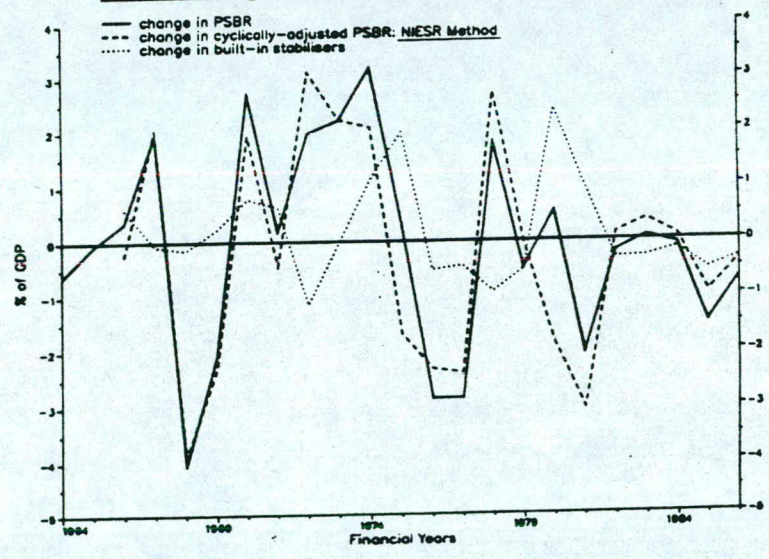


Chart 3C: Changes in PSBR and Cyclically Adjusted PSBR





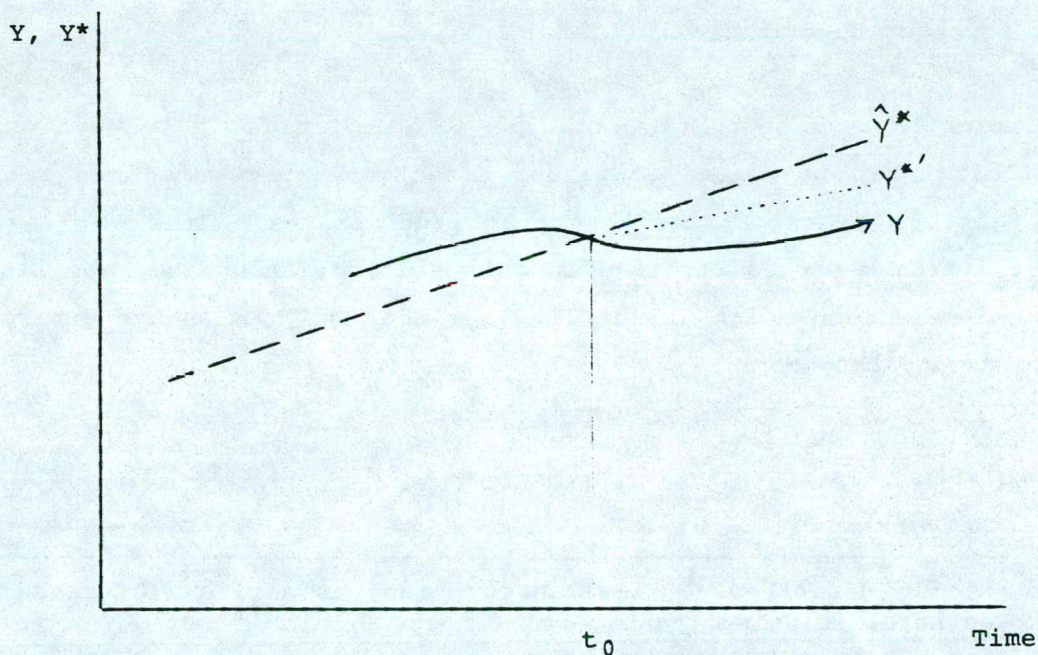
## Measurement Error

59. As we have said earlier, one of the motives for cyclically adjusting the deficit is to obtain a measure of fiscal impulse which can be used to explain changes in aggregate demand or output (eg Layard and Nickell (1985)). A positive relationship is taken to mean that changes in the CA deficit cause changes in output.

60. The difficulties associated with measurement of the CA deficit, as described in this section, suggest an alternative explanation for a positive correlation - ie measurement error bias. Positive bias (implying that the estimated effect of the deficit on output is exaggerated) can occur at either stage in the measurement process:

- (i) if the output gap is estimated with error, and the errors are positively correlated with the true output gap, or
- (ii) if the effect of changes in output on the deficit are over-estimated.

61. An example of the first is illustrated in the diagram below. Suppose  $Y^*$  is potential output and is estimated by a simple straight-line trend,  $\hat{Y}^*$ . At time  $t_0$ , growth in  $Y^*$  is reduced to  $Y^{*'}$  by some adverse supply shock (eg an increase in oil prices). If the authorities refuse to accommodate the inflationary pressure associated with this supply shock, there may be a recession in which actual output falls by even more than potential output.



62. With no change in  $\hat{Y}^*$ , the depth of the recession relative to potential, or benchmark output will be exaggerated (the estimated output gap will be  $Y - \hat{Y}^*$ ; the true output gap is  $Y - Y^*$ ). In cyclically adjusted terms, fiscal policy will therefore appear tighter than it actually is, and its contribution to the fall in output will be correspondingly overstated. This source of bias may have been quite significant over the past 10 or 15 years, during which there have been major shifts in oil and other commodity prices (in real terms).

63. Two examples of the second source of bias - where the feedback effects of output on the deficit are measured with error - have already been referred to. The first is the case where the authorities operate an active discretionary fiscal policy over the cycle, so that the feedback effects represented by the automatic stabilisers are only part of the total feedback effects. If, as we suggested in paragraph 57, discretionary policy is pro-cyclical a cyclical adjustment technique which only takes account of the automatic stabilisers will induce a spuriously high coefficient in a regression of output on the CA deficit.<sup>9</sup>

64. Secondly, the failure to allow for lags in the relationship between changes in output and changes in tax revenues, benefit payments and so on (see paragraph 53), may mean that the size of the short run stabilisers is over-estimated. When output rises, this implies that a higher proportion of any given deficit is defined as cyclical, and a smaller proportion discretionary. As a result, the correlation between output changes and discretionary policy changes may appear stronger than it really is.

65. To summarise, even though in principle the relationship between output and the CA deficit could be biased in either direction, there are good reasons for believing that, in practice, positive bias predominates. This is likely to be true for all three measures reported in this section, though perhaps less so for our preferred measure - which allows for lags and does not assume a fixed, peak, output path as its benchmark.

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<sup>9</sup> Whether this is described as simultaneity bias, as earlier, or measurement error bias, as here, is unimportant; its effects are the same.

## VI CONCLUSIONS

66. In this paper, we have attempted to highlight the main conceptual problems associated with the cyclically-adjusted budget deficit. We have argued that one of the most common interpretations - that is, of the CA deficit as a measure of fiscal impact on aggregate demand - is also one of the least convincing. The proposition that cyclical adjustment is a way of allowing for simultaneity bias in the relationship between fiscal policy and output is recognised. But in principle simultaneity bias will remain even after cyclical adjustment, except in the rather unlikely circumstance that discretionary policy is unaffected by fluctuations in output (ie the authorities are entirely passive over the cycle). The evidence presented here suggests that, in fact, it may have operated pro-cyclically. We conclude that, if simultaneity bias is to be avoided, a proper instrumental variable approach, using the unadjusted deficit, is required.

67. At a less technical level, it is clear that a given change in the fiscal deficit will have the same effect on aggregate demand whether it is generated by the automatic stabilisers or by so-called discretionary policy, except of course insofar as the composition of revenues and expenditures may be different. Cyclical adjustment, on the other hand, effectively discounts the role of the automatic stabilisers in the demand management process altogether. We argue, therefore, that the CA deficit is not a useful measure of fiscal impact on demand - it is simply an indicator of the extent to which the authorities are acting with or against the automatic stabilisers.

68. It is possible, under certain circumstances, to make a case for using the CA deficit as a guide to the setting of fiscal policy. A smooth path for the CA deficit would ensure that the automatic stabilisers are allowed to work, contributing to greater stability in <sup>nominal</sup> ~~money~~ demand than would be obtained with an unconditional target for the unadjusted deficit. Given the costs involved, for the private sector as well as the authorities, in continually changing tax rates and spending plans, and given the difficulties associated with fine tuning, this may be a reasonable starting point.

69. On the other hand, the tax and benefit system will not normally have been designed primarily to give the most appropriate stabilisation properties. Nor is fiscal policy the only element in the stabilisation process; monetary policy also has a role to play. In practice, therefore, the authorities may decide to

exercise some discretion in setting fiscal policy over the cycle, taking into account amongst other things the relative desirability of stabilising tax and benefit rates rather than interest rates; and the importance attached to medium term objectives for inflation.

70. A second argument for setting fiscal policy in terms of the CA deficit is so as to avoid significant changes in the level of public sector debt (or its ratio to money income) in the long run. Provided that the cycle is appropriately defined, the cyclical component of the deficit should cumulate to zero, and will not therefore affect the long run debt-income ratio.

71. Aside from the difficulty of measuring the cyclical position, the main caveat here is that there are a number of factors other than the CA deficit which are likely to affect the government's long run solvency (examples include changes in the value of fixed assets in the public sector, or in unfunded pension liabilities). It follows that a policy which maintains a constant CA deficit does not necessarily ensure that government's net liabilities are constant in the long run, and in this sense such a policy may not be sustainable.

72. As far as the measurement of the CA deficit is concerned, the problems are both conceptual and empirical. The appropriate definition of benchmark output, relative to which the cycle is measured, depends partly on how the resulting estimates for the CA deficit are to be interpreted. We favour a moving-average trend in this context, mainly because it avoids the risk that, by opting instead for a potentially over-optimistic estimate of equilibrium output, too big a proportion of any given deficit will be classified as cyclical.

73. In calculating cyclical adjustment factors, we use full simulations of the Treasury model, assuming that the composition of output is more or less constant over the cycle and that monetary policy is non-accommodating (though the results are not particularly sensitive to these assumptions). We also allow for lags: our results suggest that when output changes, only about half the full year effect on the deficit comes through in the first year.

74. Using a mid-cycle concept of benchmark output, as we do, generates fairly small cyclical adjustments; the largest is around one per cent of GDP, and the absolute average over the past 20 years considerably less than  $\frac{1}{2}$  per cent. Other institutions have produced much larger adjustments by measuring the cycle relative to an estimate of potential output. Since this level of output is

probably not attainable in the medium term without excessive pressure on inflation (if at all), the resulting measures of the CA deficit give a misleading impression of the scope for fiscal stabilisation. Unrealistic estimates of potential output, and other measurement error biases, may have also contributed to the exaggeration of the importance of fiscal policy as a determinant of output and demand.

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## BEGG'S (1986) MODEL

1. Let

$y, y^*$  = actual and potential output;  
 $c$  = marginal propensity to consumer;  
 $t$  = net tax rate;  
 $v_y$  = discretionary element of policy;  
 $g$  = government spending (constant over the cycle);  
 $u$  = demand shock ( $E(u) = 0$ );  
 $f$  = budget surplus;

Suppose that output is determined from the income-expenditure identity:

$$y = c(1 - t - v(y, y^*))y + g + u \quad (1)$$

2. The parameter  $v$ , determining discretionary policy (in Begg's terminology), is a function of the output gap. Assuming discretionary policy is operated counter-cyclically:

$$v_y > 0 > v_{y^*}$$

and

$$v(y^*, y^*) = 0$$

3. The budget surplus is defined as:

$$f = ty + v(y, y^*)y - g \quad (2)$$

Cyclical adjustment of the budget surplus involves evaluating net tax revenues at  $y^*$ , using current values of  $t$  and  $v$ :

$$f^* = ty^* + v(y, y^*)y^* - g \quad (3)$$

Suppose also that  $g$  is set equal to its long-run equilibrium value (ie when  $y=y^*$ ). From (1), this implies:

$$g = y^*(1 - c) + cy^* \quad (4)$$

Substituting in (3) and dividing through by  $y^*$  gives the CA surplus as a proportion of potential output:

$$f^*/y^* = (c - 1)(1 - t) + v(y, y^*) \quad (5)$$



4. Begg argues that since the CA surplus is a positive function of both  $t$  and  $v$ , it can be interpreted as an indicator of total fiscal stance, including both automatic stabilisers and discretionary policy.

5. But this simply reflects the choice of terminology. In all other studies, the "automatic stabiliser" is defined as the product of the net tax rate,  $t$ , and the gap between actual and potential output - not as the value of  $t$  itself (which is discretionary).<sup>1</sup> It is this product,  $t(y - y^*)$ , which the CA deficit attempts to exclude and the issue is whether, in doing so, it becomes a better or worse measure of fiscal impulse.

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<sup>1</sup> The more conventional representation, using Begg's notation, would be:

$$f = ty - d$$

$$f^* = ty^* - d$$

where  $d$  represents net discretionary spending and is (formally) independent of output. The difference between  $f$  and  $f^*$  is defined as the automatic stabiliser:

$$f - f^* = t(y - y^*)$$

TABLE I: BASIC DATA

	UNADJUSTED			CYCLICALLY ADJUSTED (a)		
	PSBR	PSFD	GGFD	PSBR	PSFD	GGFD
% of Money GDP						
1963-64	3.3	3.3	1.7	2.9	3.0	1.4
1964-65	2.6	2.3	0.6	3.1	2.8	1.0
1965-66	2.6	1.7	-0.0	3.0	2.1	0.4
1966-67	2.9	2.6	0.3	2.8	2.6	0.2
1967-68	4.9	4.2	1.8	4.6	3.9	1.5
1968-69	0.8	0.8	-0.5	0.9	0.9	-0.4
1969-70	-1.2	-1.7	-2.9	-1.0	-1.5	-2.6
1970-71	1.5	-0.4	-2.4	1.5	-0.4	-2.3
1971-72	1.6	1.1	-0.6	1.1	0.6	-1.1
1972-73	3.6	3.0	1.8	3.4	2.8	1.6
1973-74	5.8	4.6	3.5	6.7	5.5	4.4
1974-75	9.0	6.7	4.4	9.7	7.4	5.1
1975-76	9.3	7.3	4.9	8.7	6.8	4.3
1976-77	6.4	5.7	4.4	5.8	5.1	3.8
1977-78	3.6	4.4	3.5	3.4	4.2	3.4
1978-79	5.3	4.8	4.1	5.6	5.1	4.3
1979-80	4.8	3.9	2.8	5.9	4.9	3.9
1980-81	5.4	5.0	3.9	5.6	5.2	4.2
1981-82	3.3	2.0	1.7	2.5	1.2	0.9
1982-83	3.1	2.9	2.8	2.5	2.3	2.1
1983-84	3.2	3.7	3.8	2.9	3.5	3.5
1984-85	3.1	4.0	3.6	2.9	3.8	3.4
1985-86	1.6	2.3	2.5	1.4	2.1	2.4
1986-87	0.9	2.5	2.7	0.8	2.4	2.6

(a) Based on moving-average measure of "benchmark" output.

TABLE II: ALTERNATIVE CYCLICAL ADJUSTMENTS

Year	Output Gap (a)			Cyclical Adjustments (b)		
	MA Method	% of mid-cycle/potential output		MA	% of mid-cycle/potential output	
		OECD (c)	NIESR (d)		OECD (e)	NIESR
1963-64	0.4	na	4.9	0.3	na	na
1964-65	1.4	na	3.4	-0.4	na	na
1965-66	0.5	na	3.4	-0.4	na	0.2
1966-67	-0.7	na	3.1	0.1	na	0.8
1967-68	-0.6	na	4.3	0.3	na	0.8
1968-69	0.7	na	3.3	-0.1	na	0.6
1969-70	0.5	na	3.9	-0.3	na	0.8
1970-71	-0.3	0.0	4.5	-0.1	0.0	1.6
1971-72	-1.8	0.3	5.8	0.5	0.2	2.2
1972-73	0.6	-0.8	3.8	0.2	-0.1	1.1
1973-74	3.2	-1.3	2.4	-0.9	-0.8	1.1
1974-75	0.4	0.5	4.6	-0.7	0.3	2.2
1975-76	-2.5	2.3	7.9	0.5	1.4	4.2
1976-77	-0.5	2.5	6.8	0.6	1.5	3.6
1977-78	-0.3	2.0	6.5	0.2	1.2	3.2
1978-79	1.2	0.6	5.5	-0.3	0.4	2.3
1979-80	3.2	0.8	4.8	-1.0	0.5	1.7
1980-81	-1.5	4.0	10.7	-0.2	2.4	4.1
1981-82	-2.0	5.9	12.5	0.8	3.5	5.1
1982-83	-1.1	5.8	12.7	0.7	3.5	4.8
1983-84	-0.2	4.8	11.3	0.3	2.9	4.5
1984-85	-0.6	3.8	10.5	0.2	2.3	4.3
1985-86	-0.2	2.8	9.3	0.2	1.7	3.8
1986-87	-0.2	2.5	8.5	0.1	1.5	3.4

(a) Logarithmic percentage differences

(b) Positive numbers indicate structure deficit lower (or greater surplus) than unadjusted balance. MA adjustments based on mid-cycle output, OECD and NIESR on potential output

(c) OECD output gaps estimated from published cyclical adjustments

(d) Normalised to 1973Q1 equals zero. Adjustments estimated after 1983-84. Source: NIER No 113, Aug 1985, No 115, Fed 1986.

(e) Source: Price & Muller (1984) and OECD Economic Outlook, financial year estimates from calendar year data.

FinRep

\* This won't do. (We have spoken) 2. Post let me see the revised memorandum.

mp

FROM: A TURNBULL  
DATE: 26 APRIL 1988

CHIEF SECRETARY

cc Chancellor  
FST  
PMG  
EST  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Odling-Smee  
Mr Beastall  
Mr Gieve  
Mrs Butler  
Mr Richardson  
Mr R I G Allen  
Mr G C White  
Miss Walker  
Mr Hurst  
Miss Evans  
Mr Dyer

Ch  
This explains procedure.  
But X looks much too low-key. AA

FINANCIAL REPORTING TO PARLIAMENT

Departments have now agreed to the changes in the structure of documents and agreement has now been reached on the proposals to be put to the Opposition on debates - see Mr Gray's letter of 25 April. (The day formerly used in February to be added to the Autumn Statement debate making a two-day debate in mid-January.) The way is therefore clear to send the memorandum to the TCSC and PAC.

No early n  
Chris Wakeham's  
Office fully seized of point  
X

2. We propose to do this by writing to the two Clerks along the lines attached.\* Formally papers presented to Select Committees are there properly as evidence. However, as neither has an inquiry under way we propose to seek their agreement for the Memorandum to be made more widely available. It would then be placed in the Library of the House of Commons and would be sent to people interested in this subject.

AT

A TURNBULL

\* Copy of revised Memorandum attached to top copy only.

DRAFT LETTER FOR MR BEASTALL TO SEND TO

Clerk to the PAC

#### FINANCIAL REPORTING TO PARLIAMENT

In its report on Financial Reporting to Parliament (Eighth Report 1986-87) the PAC put forward a number of suggestions on the way the Government's financial documents could be restructured. In its response (Cm 177) the Government undertook to examine these proposals and to report their conclusions to the Committee.

2. The attached Memorandum sets out the Government's proposals. The Memorandum also responds to proposals put forward by the TCSC in its report (HD 292) on the Government's Public Expenditure White Paper (Cm 288) and is being sent at the same time to the Clerk to the TCSC.

3. In view of the wider interest in this subject among MPs who are members of other Select Committees, academics and professional bodies, the Government wishes to make its response widely available. I would be grateful if you could confirm that there is no objection to that. We can then arrange for copies to be made available to the House of Commons Library and for a PQ to be answered advertising the fact.

**DRAFT LETTER FOR MISS EVANS TO SEND TO**

Clerk to the TCSC

**FINANCIAL REPORTING TO PARLIAMENT**

In its report (HC 292) on the Government's Public Expenditure White Paper (Cm 288), the Committee set out a number of proposals for the way in which financial information is reported to Parliament. The attached Memorandum sets out the Government's proposals for restructuring the existing financial documents.

2. The Memorandum also fulfils the Government's undertaking to consider suggestions put forward by the Committee of Public Accounts in its report on Financial Reporting to Parliament (PAC Eighth Report 1986-87) and to report their conclusions. The Memorandum is being sent at the same time to the Clerk to the PAC.

3. In view of the wider interest in this subject among MPs who are members of other Select Committees, academics and professional bodies, the Government wishes to make its response widely available. I would be grateful if you could confirm that there is no objection to that. We can then arrange for copies to be made available to the House of Commons Library and a PQ answered advertising the fact.

Spave

## BIDS RECEIVED SO FAR

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
DEFENCE	298	934	1,380
DTI	64	58	-64
HOME OFFICE	347	465	473
TRANSPORT	394	456	605
DOE - HOUSING	524	602	936
DOE - OTHER	413	344	304
DES	632	842	976
N. IRELAND*	40	72	101
WALES*	36	32	20
ENERGY	9	-9	-19
ARTS & LIBRARIES	-	-	+50 <sup>+</sup>
HEALTH	1,877	2,608	3,498
SOCIAL SECURITY	756	1,363	2,679
ODA	38	69	88
FCO - DIP WING	39	59	61
	5,467	7,895	11,088

*John Jones*  
*9/2*

2,633

3,961

6,177

\* Excludes "formula" consequentials/ Excludes Thyssen

FROM: A TURNBULL  
DATE: 3 MAY 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Odling-Smee  
Mr Beastall  
Mr Gieve  
Mr Richardson  
Mr Hurst  
Mr Dyer  
Miss Evans o/r

Ch  
OK to write (as several  
shortened) ? One we get PM's OK,  
you can write  
about Higgins AA  
OK

### FINANCIAL REPORTING TO PARLIAMENT

Mr Sheldon, as Chairman of the PAC, was content with our proposal to release the memorandum sent to the Committees in advance of consideration of it by the Committee. Mr Higgins, as Chairman of the TCSC, did not object to early publication but he wanted this to be in the form of a White Paper by the Government.

2. In his other role as Chairman of the Liaison Committee Mr Higgins said he had just completed a study of the ways in which departments responded to Select Committee Reports. He had written to the Lord President urging that practice be standardised on either a White Paper or a memorandum published by the Committee as a House of Commons paper. In view of this he was not keen on having the memorandum disseminated as a Treasury Press Notice which was placed in the Library. He felt that the proposals in the memorandum were important and that it was more convenient for readers to have an identified number and for it to be available in HMSO bookshops.

3. You spoke to him and urged your wish to put the memorandum in the public domain as soon as possible. He agreed that it could be issued as a Press Notice (which has been done tonight) but asked you to consider publishing it for the record as a White Paper. (This would avoid having to make the choice of which Committee published it as an HC paper.)



4. We do not entirely share Mr Higgins' enthusiasm for formalising the responses but see no harm either. It could be published by HMSO on either Friday or Monday. For this to happen the formal clearance of No 10 is required. I attach a draft Private Secretary letter seeking this.

AT

A TURNBULL

DRAFT LETTER FOR PS/CHANCELLOR TO SEND TO:

Please type for Alex's signature

Paul Gray  
10 Downing Street

PS/Prime Minister

FINANCIAL REPORTING TO PARLIAMENT

The Treasury's memorandum was sent last week to the PAC and TCSC under cover of letters to the two Clerks. It requested the Committees to agree that the document should be made available more widely without waiting for it to be published as a House of Commons paper by <sup>one or both of</sup> the Committees. ~~(There would, in any case, be difficulties in deciding which of them should publish it.)~~

2. Both Chairmen were content for the document to be disseminated more widely, ~~but~~ <sup>Mr</sup> Higgins ~~expressed a preference for it to~~ <sup>could also</sup> be published as a ~~Government Command~~ <sup>White</sup> Paper. This reflects a study the Liaison Committee ~~had~~ <sup>has</sup> conducted into the way in which departments respond to Select Committee reports. As Chairman of ~~the~~ <sup>that</sup> Committee he has written to the Lord President recommending more uniformity - with publication as either a ~~Commons~~ <sup>Command</sup> Paper or a House of Commons paper being the norm. ~~He also argues that giving documents an identifiable Cm or HC number is helpful to readers.~~

3. In view of this he was reluctant to see the memorandum placed in the Library of the House following a PQ, and to see it issued as a Treasury Press Notice.

and it was published yesterday under a Treasury Press release.

more to over

In order to avoid further speculation following the article in the press it was agreed that the document could be released today as a Treasury Press release which was done.

4. [ The Chancellor spoke to Mr Higgins and expressed his wish to see earlier release of the document than could be achieved through a White Paper. They therefore agreed that the document could be released today as a Treasury Press Release (which has now been done) but Mr Higgins asked the Chancellor to consider turning it into a White Paper to provide a document of record. ] The Chancellor sees no objection, to [ this ] and proposes publication on Friday if that can be achieved, or failing that Monday. Publication of White Papers requires the formal clearance of the Prime Minister's Office and this is now sought. The text has already been agreed following the exchange of minutes between the Chief Secretary and the Lord President. ]

*and point some things out*

*However*

*Make this up - putting out the Government's response as a White Paper. It should be grateful if you could arrange for the Prime Minister's clearance. It would be published either on Friday or on Monday.*

5. I am copying this to Alison Smith (Lord President's Office) and to Sir Robin Butler (Cabinet Office).

*He would be grateful for confirmation that the Prime Minister's consent with this.*

CONFIDENTIAL AND PERSONAL

FROM: MRS P TODD  
DATE: 4 May 1988

1. MR MOWL *efm*

2. CHANCELLOR OF THE EXCHEQUER

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

### CGBR(O) AND CGBR IN APRIL

The provisional outturn for the CGBR(O) in April is a net repayment of £1.5 billion. This compares with the forecast made last month of a net repayment of £1.0 billion. Lower departmental expenditure (by £0.6 billion) and higher Inland Revenue receipts (by £0.1 billion) mainly PAYE, were partly offset by lower Customs and Excise receipts (by £0.1 billion) mainly VAT, and lower privatisation proceeds (by £0.1 billion) due to a delay in the receipt of proceeds from the National Bus Company. The estimate of the outturn is subject to revision before publication on Wednesday 18 May.

2. The forecast for April was based on the provisional Budget profile for 1988-89. The expenditure profiles in particular were provisional and have now been finalised. The final profiles have expenditure in April £0.3 billion lower than in the provisional profile. Against the revised profile, the provisional CGBR(O) outturn shows a higher net repayment of £0.2 billion. Final figures for the 1988-89 monthly profiles will be presented with the next Ministerial note on the PSBR in two week's time.

3. On-lending to local authorities in April was high (£1.1 billion), but was offset by a £0.2 billion repayment of on-lending by public corporation. The CGBR in April was therefore a net repayment of £0.7 billion.

*P. Todd*

P TODD

## CONFIDENTIAL AND PERSONAL

## CENTRAL GOVERNMENT TRANSACTIONS

	April 1988		April 1987	
	Provis- ional outturn	Last month's forecast	Differ- ence	Outturn
<b>RECEIPTS</b>				
Inland Revenue	5.2	5.1	0.1	4.8
Customs and Excise	3.9	4.0	- 0.1	3.7
National Insurance Contributions	2.2	2.2	0.0	2.0
Privatisation proceeds	1.8	1.9	- 0.1	0.2
Interest and dividends	0.7	0.6	0.0	0.6
Other receipts	0.1	0.1	0.1	0.0
<b>Total receipts</b>	<b>14.0</b>	<b>13.9</b>	<b>0.0</b>	<b>11.3</b>
<b>EXPENDITURE</b>				
Interest payments	1.3	1.2	0.1	1.1
Departmental expenditure (a)	11.1	11.7	- 0.6	12.0
<b>Total expenditure</b>	<b>12.4</b>	<b>13.0</b>	<b>- 0.5</b>	<b>13.2</b>
<b>CGBR(O)</b>	<b>- 1.5</b>	<b>- 1.0</b>	<b>- 0.6</b>	<b>1.9</b>
<b>CGBR(O) excluding privatisation proceeds</b>	<b>0.3</b>	<b>1.0</b>	<b>- 0.7</b>	<b>2.1</b>
On-lending to LAs	1.1	0.5	0.6	1.1
On-lending to PCs	- 0.2	- 0.1	- 0.1	- 0.6
<b>CGDR</b>	<b>- 0.7</b>	<b>- 0.6</b>	<b>- 0.1</b>	<b>2.5</b>

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure  
 - = lower receipts, and lower borrowing, lower expenditure



1. ACSA  
2. pmp

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

5 May 1988

Dear Alex,

FINANCIAL REPORTING TO PARLIAMENT

Thank you for your letter of 4 May. The Prime Minister is content for the Treasury's memorandum to be published as a White Paper.

I am copying this letter to Alison Smith (Lord President's Office) and to Trevor Woolley (Cabinet Office).

CH/EXCHEQUER	
REC.	05MAY1988
ACTION	MR TURNBULL
COPIES TO	CST
	SIR P. MIDDLETON
	MR ANSON MR PHILIPS
	MR ODLING SMEE
	MR BEASTALL MR GIEVE
	MRS BUTLER MR RICHARDSON
MR RIG ALLAN MISS EVANS	
MR DYER	

Yours,  
Paul

Paul Gray

Alex Allan, Esq.,  
H.M. Treasury.

FROM: A F HURST  
DATE: 5 MAY 1988

*PH*

PRINCIPAL PRIVATE SECRETARY

cc PS/CST  
Mr Anson  
Mr Turnbull  
Mr Giese  
Mr Richardson  
Mrs R. J. Baker

**FINANCIAL REPORTING TO PARLIAMENT**

Further to Mr Turnbull's minute to the Chancellor of 3 May and your subsequent letter to Paul Gray, I now attach the final proof of the proposed White Paper.

2. I understand that clearance from No 10 has now been received so that if we are able to return the proof to HMSO early this afternoon we can meet our target of publication tomorrow (Friday). I will assume that you are content for us to proceed with publication unless I hear to the contrary by 1300 hours today.

*Alan Hurst*

A F HURST



# Financial Reporting to Parliament

Committee of

7

The Government's proposals for financial reporting to Parliament following the report from the Public Accounts ~~Committee~~ (Eighth Report of 1986-87—HC 98) and the report from the Treasury and Civil Service Committee on the 1988 Public Expenditure White Paper (2nd Report of 1987-88—HC 292)

Presented to Parliament by the Chancellor of the Exchequer  
by Command of Her Majesty  
May 1988

LONDON

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# Financial Reporting to Parliament

## Introduction

1. The Committee of Public Accounts (PAC), in its Eighth Report of 1986-87 (HC 98) said they wanted documents tailored more specifically to Parliament's needs in its consideration of department's expenditure proposals and suggested three possibilities:—

- to develop Volume II of the Public Expenditure White Paper (PEWP), possibly dividing it into separate departmental reports, so that it embodies formal Estimates of the sums required to be voted by Parliament;
- to publish the Estimates earlier and develop their present form to include the forward looking information on departmental objectives and performance targets needed by Parliament to consider Supply;
- to develop some other document tailored more specifically (in relation to both timing and information content) to Parliament's needs, relegating the Estimates to a formal supporting role.

2. The Government replied on 15 July 1987 (Cm 177) agreeing that the form and content of financial reports should reflect internal systems and Parliament's perception of its own needs. There should be a direct correlation between the information in the White Paper on departmental objectives, performance and output and the Supply Estimates, so that the information in the former can be relevant to the examination of the latter. The Government expected to carry this process forward, so that the Committee's concern that information on aims, objectives and performance could be directly related to the Estimates should be largely met without repeating that information in the Estimates themselves. The Government saw advantages which publication of the information in the White Paper and the Estimates in a combined document might produce, but noted that there were many other implications to be considered (eg for the timing of work in departments and the Treasury and in Parliament) before such a move could be decided upon. The Government would review these implications and report their conclusions to the Committee.

3. The Treasury and Civil Service Committee, in its report on the 1988 PEWP (HC 292), also considered the structure of expenditure documents and the way they are presented to the House and debated by it. The TCSC observed that the Autumn Statement now provides very much more information on the public expenditure aggregates and the broad division between programmes for the three years ahead. In consequence there was very little new that the PEWP has to say on the broad picture.

4. The TCSC recommended dividing the PEWP into three. The material on the broad policy on the totals and the outline plans should be absorbed into the Autumn Statement, to the extent that it is not already there; the departmental chapters of Volume II should be published as departmental reports no later than the Budget, together with the Estimates; and the technical analyses of Volume I should be released in January/February.

5. This White Paper accordingly presents the outcome of the Government's consideration of the matter and its proposals for future action, and invites the comments of the two Committees.

## Government Proposals

6. The Government notes in the proposals of the two Select Committees some themes which it considers should feature in any new system. These are that the present series of three documents (Autumn Statement, PEWP and Estimates) could usefully be rationalised into two; that the main elements of the outcome of the Survey ought to be made available as soon as possible after the Survey has been completed; that clear and comprehensive information about the objectives, performance and output of each of the departmental programmes should be published for consideration and, as necessary, debated by Parliament; and that there should be clear links between the information about programme plans and the requests for Supply which Parliament is asked to approve. In addition, if the documents are to include the information which Parliament requires, there need to be clear links between the timetable for these

documents and the internal management systems which are used within departments and the Treasury to plan and control the expenditure.

7. Against this background, the Government's proposals are in brief as follows:—

- (i) The Autumn Statement would include as much as practicable of the key material from Chapter 1 of the PEWP. This would still be published in November within a few working days of the Cabinet's decisions on the Survey.
- (ii) Volume II of the PEWP would be split up into separate departmental volumes containing each department's plans. These would be published in March, on or shortly before Budget day, in conjunction with the formal Supply Estimates. They would thus serve both as a description of the department's plans and as the necessary background information for understanding of the Supply Estimates.
- (iii) The remaining material in Volume I of the PEWP cannot be produced until departments have decided how the Survey allocations should be further broken down between sub-programmes (especially in the territories where this process has to await decisions on all the English programmes) and the detailed figures have been collated and analysed in the Treasury computer. This could be made available in a number of ways, for example as a statistical supplement to the previously published Autumn Statement, in written answers to Parliamentary questions, or along with the departmental reports in March.

8. A number of related questions will also need to be considered. First, whether for each department the volume on the departmental plans and the corresponding booklet of Supply Estimates should be merged into a single document; or whether the departmental plans should be published separately from, but on the same day as the formal Supply Estimates which would be published in a series of booklets as now. The Government undertook, in the statement mentioned in paragraph 2 above, to consider this question. Merger would have the advantage that all the relevant information would be bound within one document. But many readers of the departmental plans would not need to have, or want to pay for, the relatively detailed breakdown in the Estimates which is needed by Parliament and Government as the basis for the preparation and audit of the Appropriation Accounts.

9. The Government sees advantages in publishing the departmental material now in the PEWP on the same day as the corresponding Estimates. One effect would be that the figures for the year immediately ahead would be those which had been agreed in the Survey, as modified by subsequent Estimates scrutiny. Linking the two exercises in this way would help to improve the read-across between PEWP and Estimates. But for the reasons given above, it feels it would be better not to bring the two sets of publications into single volumes, but to publish departmental volumes containing the former PEWP material plus a summary of the Estimates. The latter would provide the bridge with the full Estimates which would be published at the same time but in separate booklets. This would still allow Select Committees to have most of the relevant information brought together at the start of their scrutiny of departmental programmes. It would also allow the current arrangements under which the Treasury is responsible for presenting requests for Supply and for the associated procedures to continue.

10. Second, there is the question of the degree of uniformity of the departmental volumes. The character of the main programmes varies greatly and the volumes will need to reflect that. They will however need to contain a basic core of financial information, drawn from a common database, to link them to the information published in the Autumn Statement about the outcome of the Survey. They will also need to contain certain mandatory elements, such as a statement of objectives, an adequate array of indicators of performance and output, with comparisons with the comparable targets set in previous plans, information about running costs and manpower, and (as noted above) a clear link with the detailed Estimates. As the PAC have pointed out, the information presented should satisfy the criteria of consistency, relevance and reliability. Subject to these requirements, the aim would be to provide as informative an account as possible, bearing in mind any requests for information made by individual departmentally-related Select Committees. To meet the needs of those readers interested in more than one programme it will be our aim to ensure that as far as possible the volumes have similar structure and presentation.

11. Third, there is the timing of the change. The Treasury is well advanced with plans to introduce a new computer system and this will need modification to bring together the separate systems which support the Survey and the Estimates. Changes will also be required to the departmental systems which support the central database and to the timetables for collecting information. Linking the Survey and Estimates databases in a way which would permit the two sets of material to be published together would therefore not be practicable before the documents presenting the outcome of the 1990 Survey.

12. But this need not delay action on the main proposals in paragraph 6 above. The Government proposes to include in the 1988 Autumn Statement additional information on departmental plans in real terms, comparisons of outturn with previous plans for the expenditure totals, and debt interest in order to make it a more complete account of the outcome of the Survey. It also proposes next year to present the existing departmental chapters in the current Volume II of the White Paper as separate booklets in January; to continue to improve the read-across to the Supply Estimates; and to release the remainder of the analytical material now in Volume I in some suitable way. The policy material of Chapter 1 which was moved to the Autumn Statement would not be repeated. This would be followed after two years by moving the departmental reports to March alongside the Estimates.

13. In addition, the Government proposes to proceed with the simplifications to the Estimates identified in the National Audit Office Report (HC 576) and summarised in Annex A to the Government's reply to the PAC in July 1987 (Cm 177) including, if the PAC sees no objection, the change in treatment of grants-in-aid and international subscriptions.

14. Fourth, as the TCSC has pointed out, there are implications for the way in which the information presented is debated by Parliament. If the PEWP is divided as proposed, there would not be the basis for a separate debate that there now is, though the Government recognises that the House would not wish to lose a day's debate on public expenditure. While noting the TCSC's proposal that a debate might be held in May or June arising from Select Committee scrutiny of one or more departmental reports, the Government is not yet convinced that this would prove an acceptable alternative in all parts of the House, and would propose to consult further before taking a final view on the arrangements which should be made.

15. The Government would be grateful for the views of the PAC and the TCSC on the proposals above. It will then take account of those views in devising more detailed arrangements for future expenditure documents along the lines suggested in paragraphs 7-10.

HM Treasury

May 1988

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FROM: COLIN MOWL  
DATE: 11 May 1988

- M.S. 11/5 Tony D. p1*
1. MR SCHOLAR
  2. CHANCELLOR OF THE EXCHEQUER
- (Handwritten signature in red ink circled)*

cc Sir P Middleton  
Sir T Burns  
Mr Peretz  
Mr Sedgwick  
Mr Ritchie  
Mrs Todd  
Miss Chapman

#### PSBR IN APRIL

The first provisional outturn for the PSBR in April is a net repayment of £0.9 billion. Central government own account, helped by privatisation proceeds of £1.8 billion, showed a net repayment of £1½ billion. Public corporations too made a net repayment. These repayments were partly offset by positive local authority borrowing, a normal April occurrence. The outturn is subject to revision before publication on Wednesday 18 May.

2. There have been some small revisions to the PSBR in 1987-88 since last month's PSBR press notice. The rounded figure is now a net repayment of £3.5 billion, as published in the Bank of England's final money press notice. This compares with £3.6 billion in the last PSBR press notice. The 1987-88 outturn too could change before next week's press notice is finalised.

3. The provisional April outturn is a £0.5 billion larger net repayment than forecast last month. But last month's forecast was based on the provisional Budget profile. Now that we have fuller information from departments about the likely profile of expenditure we have been able to finalise the profiles. The provisional April outturn is only a £0.1 billion higher net repayment than in the final profile, as shown as the table attached. This is because the final profile has lower expenditure in April than the provisional one.

4. Further detail on April and new forecasts for the next three months will be given in the monthly note to be circulated next Tuesday.

*Colin Mowl*

COLIN MOWL

## CONFIDENTIAL AND PERSONAL

	April 1988					April 1987
	Provisional outturn	Last month's forecast	Difference	Final Budget profile	Difference	Outturn
CGBR(O)	- 1.5	- 1.0	- 0.6	- 1.3	- 0.2	1.9
LABR	0.9	0.8	0.1	0.8	0.1	0.5
PCBR	- 0.3	- 0.2	-	- 0.2	-	- 0.4
PSBR	- 0.9	- 0.4	- 0.5	- 0.8	- 0.1	2.0
PSBR excluding privatisation proceeds	0.8	1.5	- 0.6	1.1	- 0.3	2.2

FROM: C MOWL  
DATE: 16 MAY 1988

CHANCELLOR OF EXCHEQUER

cc Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Scholar  
Mr Sedgwick  
Mr Odling-Smee  
Mr R I G Allen  
Mr Bush  
Mr Ritchie  
Ms Chapman

*Thank you*

DRAFT PRESS BRIEFING ON PSBR IN APRIL

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

2. The provisional estimate of the PSBR in April to be published on Wednesday is a net repayment of £0.9 billion, the same as the first estimate I reported on 11 May.

3. The provisional outturn is well below most City forecasts. Those available average positive borrowing of £0.5 billion. All except Greenwell Montagu, which forecasts a net repayment of £0.8 billion, are at least £0.9 billion above the outturn. The average forecast is close to the level of borrowing in April 1987, adjusted for higher privatisation proceeds this April. In fact the PSBR excluding privatisation proceeds in April is well below the April 1987 level.

4. Analysts will easily be able to discover that the main reason for lower borrowing this year is a large fall in the level of CG supply expenditure at current prices compared with April last year (not all of this reduced the PSBR because some of it represents lower grant paid by central to local government, reducing the CGBR(0) and increasing the LABR). While this fall was not wholly a surprise to us, we would not want to engage in a detailed briefing on the significance of a single month's figures so early in the financial year. We have however included one or two special factors in the background material for IDT to draw on if necessary - together they probably account for a third or less of the fall in the PSBR excluding privatisation between April 1987 and April 1988.

5. This month we shall for the first time be inputting the figures and our comment on them directly to the Treasury pages on Reuters. (The reserves figures were released in this way on 4 May). There will be five pages, three of which are tables. A complete draft, which has been discussed with Mr Scholar and IDT is attached. With it being the first month of the year and the market position uncertain, we judged that in general the minimum of comment would be appropriate.

6. The intention is that four of the five pages, page one and the three pages of tables, will follow a standard format every month:

- page 1 gives the outturn for the latest month, both including and excluding privatisation proceeds; once we are 2-3 months into the year this page will also give the cumulative outturn to date, comparing it with the same period of last year;
- page 2 is our opportunity to make a short comment, highlighting any special factors we want to emphasise; this month we do no more than mention the contributors to the privatisation proceeds.
- page 3 gives figures for the PSBR and its sectoral components for the latest month, cumulatively for the year to date and for the same period last year, for the first month of the year the monthly and cumulative figures are of course identical;
- pages 4 and 5 give the detailed figures for the central government accounts, for the latest month and cumulatively for the current and previous years.

All the monthly figures to be input to Reuters can be read straight from the PSBR press notice and the cumulative figures (when they differ) will be obtainable from the press notice by simple arithmetic.

7. We should be grateful for comments during the course of Tuesday morning on page 2 of the Reuters pages and on the press briefing. The proposed draft of the former occupies about 200 characters (including spaces) against a maximum available of 600, leaving plenty of room for any amendments you might wish to make.

*Colin Mowl*  
C MOWL



DRAFT TREASURY REUTERS' PAGES

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238  
PSBR IN APRIL 1988 = SUMMARY

THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) IS PROVISIONALLY ESTIMATED TO HAVE BEEN MINUS (A NET REPAYMENT) STG 0.9 BILLION IN APRIL. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.9 BILLION IN APRIL.

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238  
PSBR IN APRIL 1988 = 2

THE PSBR FOR APRIL 1988 IS PROVISIONALLY ESTIMATED AT MINUS (A NET REPAYMENT) STG 0.9 BILLION. PRIVATISATION PROCEEDS WERE STG 1.8 BILLION FROM BRITISH GAS THIRD CALL AND REPAYMENT OF BRITISH GAS DEBENTURES.

**DRAFT TREASURY REUTERS' PAGES**

A:PSBR\PB

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN APRIL 1988 = 3

STG MILLION	APR 88	88-89 CUM	87-88 CUM
CGBR	-680	-680	2459
CGBR OWN A/C	-1548	-1548	1895
LABR	898	898	544
FROM CG	1094	1094	1135
OTHER	-196	-196	-591
PCBR	-283	-283	-411
FROM CG	-226	-226	-571
OTHER	-57	-57	160
PSBR	-933	-933	2028

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN APRIL 1988 = 4

STG MILLION	APR 88	88-89 CUM	87-88 CUM
CONSOL FUND TOTAL REV	9633	9633	8603
OF WHICH INLAND REV	5212	5212	4761
CUSTOMS AND EXCISE	3908	3908	3666
OTHER	513	513	176
CF TOTAL EXPENDITURE	10455	10455	11177
OF WHICH SUPPLY SERVICES	9109	9109	10060
STANDING SERVICES	1346	1346	1117
CF SURPLUS/DEFICIT(-)	-822	-822	-2574
SUPPLY EXPENDITURE	8800	8800	9560

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN APRIL 1988 = 5

STG MILLION	APR 88	88-89 CUM	87-88 CUM
<b>NATIONAL LOANS FUND</b>			
RECEIPTS	1298	1298	1075
PAYMENTS	2329	2329	2082
BORROWING	1853	1853	3581
OTHER CGFA	2533	2533	1122
PRIVATISATION PROCEEDS (STG BN)		88-89	87-88
IN MONTH (CUMULATIVE)		1.8 (1.8)	0.2 (0.2)

CONFIDENTIAL AND PERSONAL  
(DRAFT)

From: ALLEN RITCHIE  
18 May 1988

MR R.I.G. ALLEN - IDT

MR LANG - CSO Press Office

cc List A

List B

(distributed at 11.30am, 18 May)

Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Peretz  
Mr Sedgwick  
Mrs Butler  
Mr Grice

Mr Mowl  
Miss O'Mara  
Mr Pickford  
Mr Bush  
Mr Franklin  
Mr Hudson  
Mrs Todd  
Mr R Evans  
Miss Chapman  
Mr Mansell - CSO  
Mr Richardson - CSO  
Mr Wright B/E  
Mr Gray - No 10

Mr C.M. Kelly  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Ko - IR  
Mr Balley - C and E

**BRIEFING FOR 18 MAY PSBR PRESS NOTICE**

The PSBR figures for April will be published at 11.30am on 18 May. The provisional outturns, together with figures for 1987-88 are shown in Table 1. Cumulative figures for the PSBR and its components for 1986-87, 1987-88 and 1988-89 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

**Table 1: Borrowing requirement outturns**

£ billion

	April 1986	April 1987	April 1988
Central government on own account	0.2	1.9	-1.5
Local authorities	0.7	0.5	0.9
Public corporations	-0.1	-0.4	-0.3
<b>PSBR</b>	<b>0.8</b>	<b>2.0</b>	<b>-0.9</b>
Memo: PSBR (excluding privatisation proceeds)	1.9	2.2	0.9

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		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
	Apr	0.2	1.9	<b>-1.5</b>	0.7	0.5	<b>0.9</b>	-0.1	-0.4	<b>-0.3</b>	0.8	2.0
May	1.9	2.2		0.4	0.1		-0.5	-0.4		1.8	1.9	
Jun	3.1	1.7		-0.1	0.2		-0.7	-0.5		2.2	1.4	
Jul	3.1	1.4		-0.1	0.4		-1.1	-0.8		1.9	1.0	
Aug	4.2	2.3		0.2	0.2		-0.8	-0.8		3.6	1.6	
Sep	6.7	2.0		0.0	0.5		-0.9	-0.7		5.8	1.9	
Oct	6.5	1.5		-0.3	0.1		-0.5	-0.8		5.7	0.8	
Nov	7.3	0.6		-0.7	-0.5		-0.9	-0.8		5.6	-0.7	
Dec	5.7	0.0		-0.6	0.2		-0.9	-0.7		4.2	-0.6	
Jan	2.2	-5.9		-0.6	0.1		-1.1	-1.1		0.5	-7.0	
Feb	2.3	-6.2		-0.7	0.3		-1.6	-1.5		0.1	-7.4	
Mar	4.5	-3.4		0.2	1.5		-1.4	-1.5		3.4	-3.5	

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

**Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS**

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
	Apr	1.3	2.1	<b>0.3</b>	0.7	0.5	<b>0.9</b>	-0.1	-0.4	<b>-0.3</b>	1.9	2.2
May	3.0	2.9		0.4	0.1		-0.5	-0.4		2.9	2.6	
Jun	4.2	4.1		-0.1	0.2		-0.7	-0.5		3.3	3.8	
Jul	4.2	4.3		-0.1	0.4		-1.1	-0.8		3.0	3.9	
Aug	5.3	5.7		0.2	0.2		-0.8	-0.8		4.7	5.0	
Sep	7.8	6.0		0.0	0.5		-0.9	-0.7		6.9	5.8	
Oct	7.5	4.9		-0.3	0.1		-0.5	-0.8		6.7	4.2	
Nov	8.6	5.5		-0.7	-0.5		-0.9	-0.8		7.0	4.2	
Dec	8.9	5.2		-0.6	0.2		-0.9	-0.7		7.4	4.6	
Jan	5.5	-0.8		-0.6	0.1		-1.1	-1.1		3.7	-1.8	
Feb	6.0	-1.1		-0.7	0.3		-1.6	-1.5		3.8	-2.3	
Mar	9.0	1.7		0.2	1.5		-1.4	-1.5		7.8	1.6	

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

**SUMMARY (PAGES 1 AND 2 OF TREASURY REUTERS PAGES)****Page One**

THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) IS PROVISIONALLY ESTIMATED TO HAVE BEEN MINUS (A NET REPAYMENT) STG 0.9 BILLION IN APRIL. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.8<sup>9</sup> BILLION.

**Page Two**

THE PSBR FOR APRIL 1988 IS PROVISIONALLY ESTIMATED AT MINUS (A NET REPAYMENT) STG 0.9 BILLION. PRIVATISATION PROCEEDS WERE STG 1.8 BILLION FROM BRITISH GAS THIRD CALL AND REPAYMENT OF BRITISH GAS DEBENTURES.

**1. April PSBR****Background**

Excluding privatisation proceeds, PSBR was around £1½ billion lower than April, 1987. Supply expenditure £0.8 billion lower than April, 1987 (See Q.8). City forecasts for the PSBR in April average borrowing of £0.5 billion. Range is from £1.8 billion borrowing to £0.8 billion net repayment. Only Greenwell Montagu, who forecast net repayment of £0.8 billion, were close to actual outturn.

**Line to take**

PSBR in April was net repayment of £0.9 billion. Privatisation proceeds were £1.8 billion. Excluding privatisation proceeds, PSBR was £0.8<sup>9</sup> billion (net borrowing).

**2. PSBR, 1987-88****Background****Published PSBR forecasts (£ billion)**

<b>1987 FSBR</b>	<b>1987 AS</b>	<b>1988 FSBR</b>	<b>Latest estimate of outturn</b>
3.9	1.0	- 3.1	- 3.5

Line to take

PSBR for 1987-88 was net repayment of £3.5 billion. Outturn £7½ billion lower than forecast in 1987 FSBR mainly due to higher than expected receipts. Outturn £0.4 billion lower (ie. a higher repayment) than forecast in 1988 FSBR.

3. Low April figure implies FSBR forecast for 1988-89 PSBR too high?

Line to take

Monthly pattern can be erratic. No conclusions can be drawn from single month's figures.

4. Privatisation proceeds

Background

Privatisation proceeds in April £1.8 billion. Main items third call on British Gas (£1½ billion) and British Gas debentures (£¼ billion). Privatisation proceeds in April 1987 were £0.2 billion.

Line to take

Net privatisation proceeds in April were £1.8 billion, mainly reflecting third call on British Gas.

5. Consolidated Fund Revenues

Background

Consolidated Fund Revenues in April

	<u>April 1988</u> (£ billion)	<u>April 1987</u> (£ billion)
Total	9.6	8.6
of which:		
Inland Revenue	5.2	4.78
Customs & Excise	3.9	3.7
Other	0.5	0.2

'Other' revenues include privatisation proceeds when they are transferred into Consolidated Fund - these amounts may differ from total privatisation proceeds given in table 5 of press notice, as proceeds received are usually transferred to Consolidated Fund with a lag.

Line to take

Consolidated Fund revenues in April £9.6 billion. Includes some privatisation proceeds.

**6. Inland Revenue Receipts**

Background

1988 FSBR forecast 6 per cent increase in IR revenues in 1988-89. Takes into account Budget tax cuts. For PAYE, tax cuts will operate from first pay-day after 14 June. But there is always a delay between tax deductions from pay packets and salary cheques and the payment of tax by employers to IR. Means that main impact of income tax cuts on IR receipts will come in July. Tax deducted in respect of June pay for monthly paid staff and, for 5 weeks from week beginning 30 May to week beginning 27 June for weekly paid staff, is due to be paid across to IR on 19 July. Detailed estimates of composition of April receipts will be published in June Financial Statistics (table 3.13).

Line to take

Receipts for April £5.2 billion.

**7. Customs and Excise Receipts**

Background

1988 FSBR forecast 7 per cent rise in Customs and Excise receipts in 1988-89. Detailed estimates of composition of April receipts will be published in June Financial Statistics (table 3.14).

Line to take

Receipts for April £3.9 billion.

**8. Supply Expenditure**

Background

1988 FSBR gives a figure for provision for supply in 1988-89 but not a forecast of outturn because public expenditure Reserve is not allocated to individual components of expenditure (public expenditure total used in PSBR forecast assumes that the Reserve was fully spent).

Supply expenditure in April £0.8 billion lower than in same period last year. Difference partially due to lower payments of rate support grant retrospective



adjustments (in respect of prior years) than in previous April. (NB. reduces CGBR(0), but increases LABR - see Q.10). Higher than normal expenditure in March also contributed to lower April figure. Figures for individual months can be erratic. One month's figures of no significance as indicator for year as a whole.

Line to take

Provisional outturn for supply expenditure in April £8.8 billion.

**9. Central Government Borrowing**

Background

Net repayment of £1.5 billion for CGBR(0) in April compares with borrowing of £1.9 billion in April, 1987. Privatisation proceeds were £1.8 billion (April, 1987 - £0.2 billion). Excluding privatisation proceeds, CGBR(0) in April around ~~£1.3~~<sup>3/4</sup> billion lower than in previous ~~year.~~ *April.*

Line to take

CGBR(0) in April a net repayment of £1.5 billion.

**10. Local Authorities**

Background

LABR for April around £½ billion higher than in previous year. One factor serving to increase LABR as compared with last April is lower receipts from payments of rate support grant retrospective adjustments in respect of prior years (see Q.8).

Line to take

LABR (provisionally) borrowing of £0.9 billion in April.

**11. Public Corporations**

Background

Provisional outturn for PCBR in April little different from previous year.

Line to take

PCBR (provisionally) a net repayment of £0.3 billion in April.

12. Revisions to last month's estimates

Background

1987-88 PSBR (£ billion)

	<u>18 May Press Notice</u>	<u>20 April Press Notice</u>
CGBR(O)	- 3.4	- 3.5
LABR	1.5	1.4
<u>PCBR</u>	<u>- 1.5</u>	<u>- 1.6</u>
PSBR	- 3.5	- 3.6

Line to take

Small revision to PSBR for 1987-88 - now net repayment of £3.5 billion, instead of £3.6 billion.

ALLEN RITCHIE (270-5029)  
PSF Division, HM Treasury

*map**[Red handwritten signature]*From: COLIN MOWL  
17 May 1988**CHANCELLOR**

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List AList B (distributed at 11.30am, 18 May)

Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Scholar  
 Mr Sedgwick  
 Mr Peretz  
 Mr Odling-Smee  
 Mr Watts  
 Mrs Todd  
 Mr Ritchie  
 Miss Chapman

Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Mr J Anson  
 Mr Moore  
 Mr Culpin  
 Mr Turnbull  
 Mrs Brown  
 Mrs Butler  
 Mr R I G Allen

Mr Grice  
 Miss O'Mara  
 Mr Richardson  
 Mr Franklin  
 Mrs Ryding  
 Mr Cropper  
 Mr Tyrie  
 Mr Call  
 Mr Calder - IR  
 Mr Allen - C and E

**MONTHLY NOTE ON THE PSBR**

I attach a report on the PSBR outturn for April together with the forecast for the period May - July. The April outturn will be published by press notice at 11.30am on Wednesday 18 May.

The note also presents final monthly Budget profiles for the PSBR and its components for 1988-89, consistent with the FSBR forecast for the year as a whole.

*Colin Mowl*

COLIN MOWL

## **PUBLIC SECTOR BORROWING**

### Summary

- With the receipt of expenditure profiles from departments the monthly profile for the PSBR in 1988-89, consistent with the Budget forecast (the "Budget profile") has now been finalised.
- The PSBR in April was provisionally a net repayment of £0.9 billion, a £0.5 billion larger net repayment than forecast last month in the provisional Budget profiles, but only a £0.1 billion larger net repayment than in the final profile.
- Excluding privatisation proceeds the PSBR in April was £0.9 billion compared to £2.2 billion in April 1987 mainly due to lower central government expenditure.
- The PSBR over the next three months is forecast to be £0.7 billion, slightly higher than in the Budget profile. Given the small undershoot of the profile in April, the cumulative PSBR by end July is expected to be close to that envisaged in the Budget profile.
- The PSBR in 1987-88 has been revised slightly since the last note, from a net repayment of £3.6 billion to one of £3.5 billion.

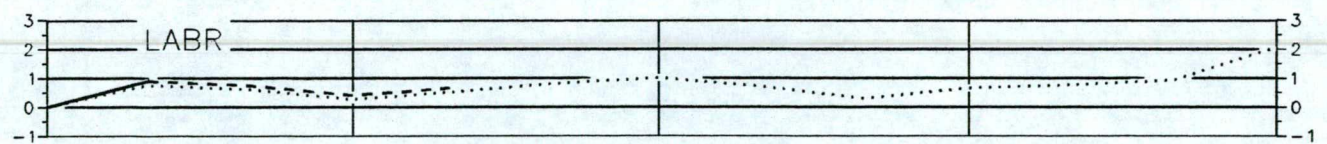
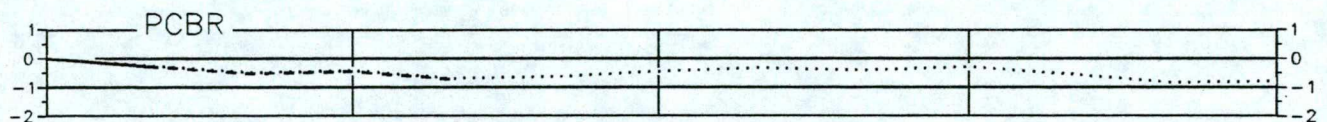
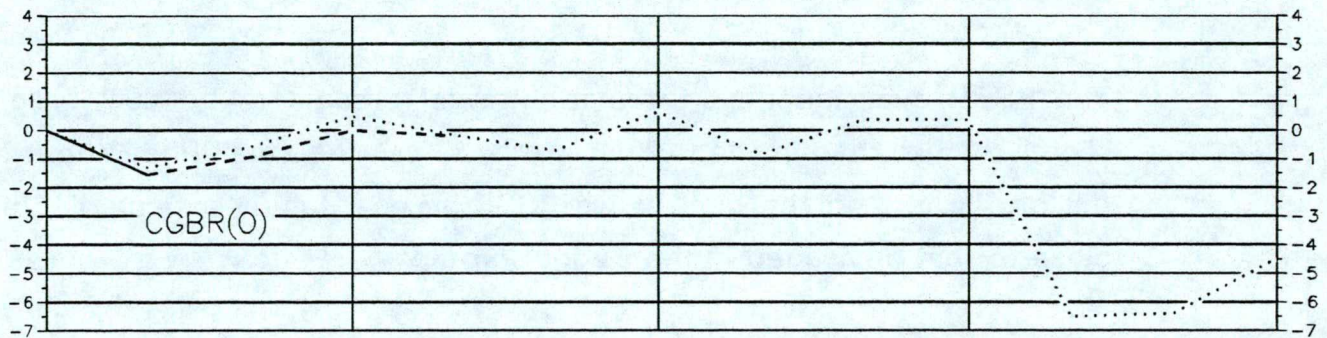
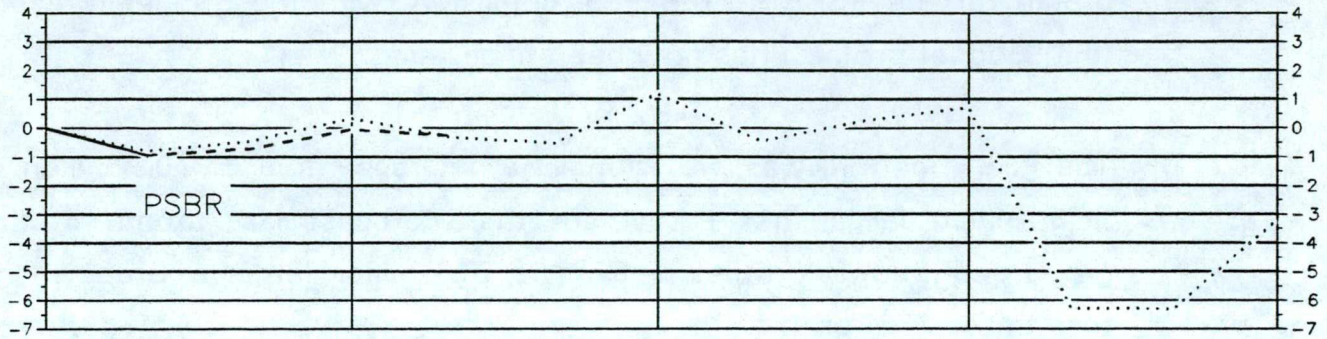
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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : 1988-89: Comparisons with Budget profiles**

£ billion cumulative

- = Estimated outturn in 1988-89
- ..... = Budget profile
- - - = Latest forecast

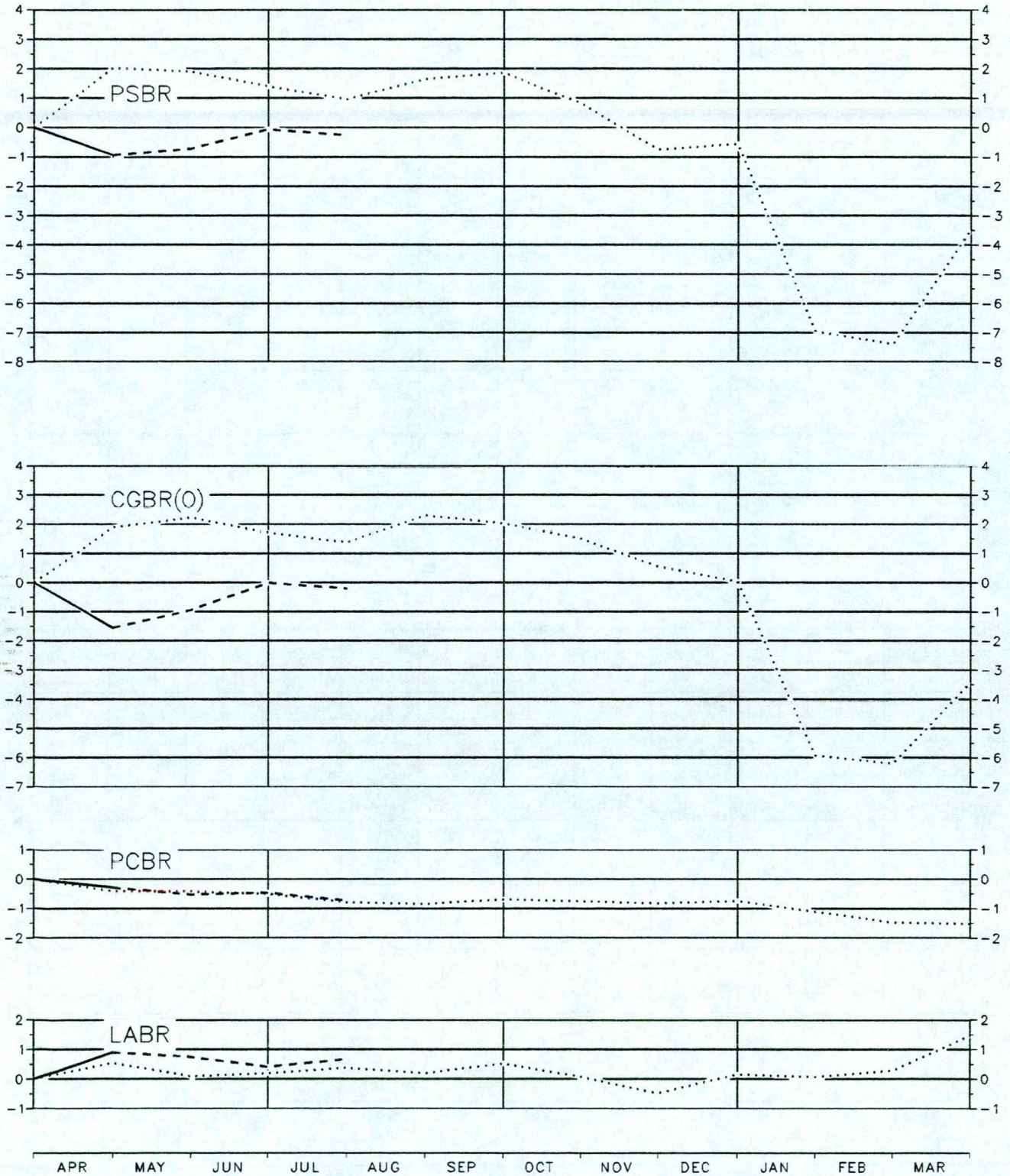


APR    MAY    JUN    JUL    AUG    SEP    OCT    NOV    DEC    JAN    FEB    MAR

**Chart 2: 1988-89: Comparisons with outturns for 1987-88**

£ billion cumulative

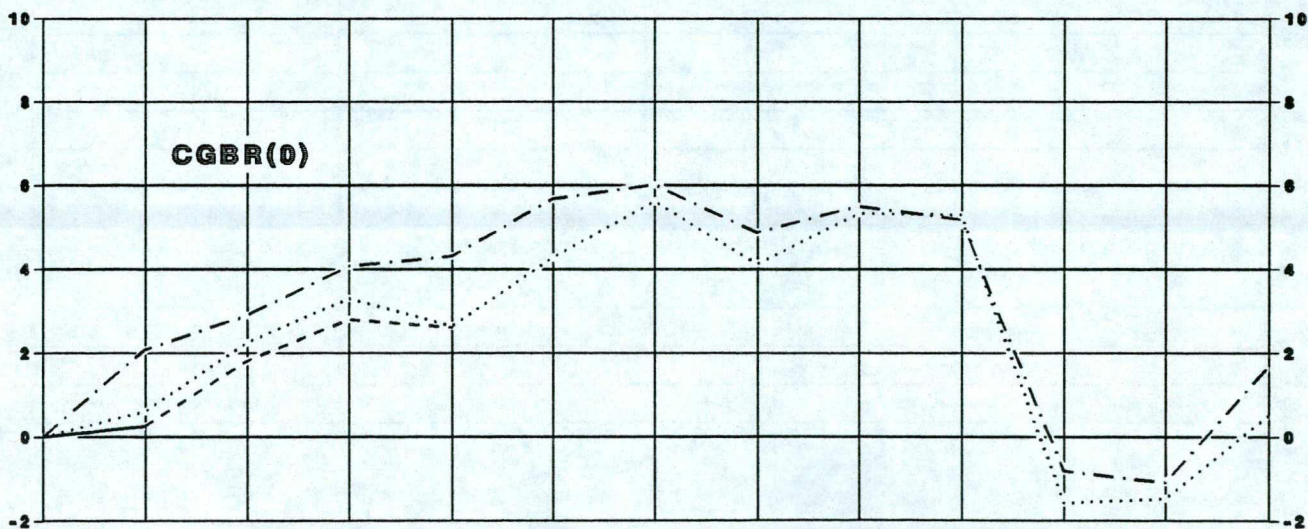
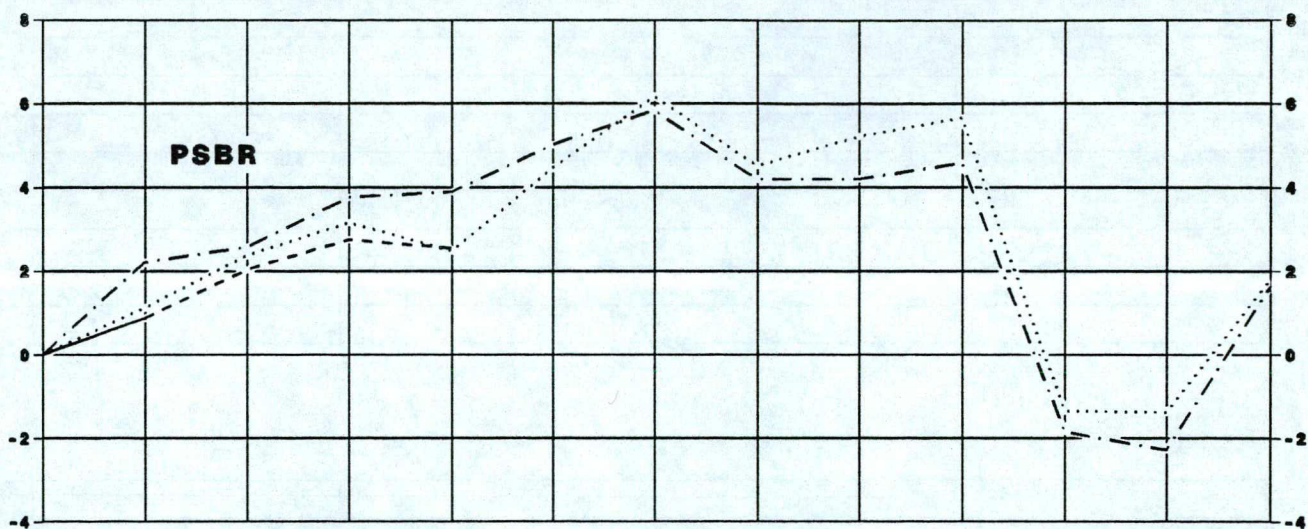
- = Estimated outturn in 1988-89
- ..... = 1987-88 outturn
- - - = Latest forecasts



**Chart 3: Comparisons excluding privatisation proceeds**

£ billion cumulative

- = Estimated outturn in 1988-89
- - = 1987-88 outturn
- ..... = 1988-89 Budget profiles
- . - . = Latest forecasts



APR    MAY    JUN    JUL    AUG    SEP    OCT    NOV    DEC    JAN    FEB    MAR

**1987-88**

1. The estimate for the PSBR outturn for 1987-88 is now a net repayment of £3.5 billion,  $\frac{3}{4}$  to 1 per cent.

**Budget profiles for 1988-89**

2. The Budget profiles have now been finalised. The main change is that the expenditure profile has been revised on receipt of further information from departments. The final Budget profiles are shown in Chart 1 and Table 5. A brief note on the expenditure profiles is attached at Annex A.

**Borrowing in April**

**(Outturn compared with final Budget profiles)**

3. The PSBR in April was a provisional net repayment of £0.9 billion . This compares with a net repayment of £0.4 billion forecast last month in the provisional profiles based on incomplete information. The outturn was, however, fairly close to the final profile. The differences between outturn and the final profiles on the individual sub- sectors are shown in table 1.

**Table 1: April 1988 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	-0.8	-1.3	0.8	-0.2
Outturn	-0.9	-1.5	0.9	-0.3
Difference	-0.1	-0.2	0.1	-

\*Final Budget profile



4. The PSBR excluding privatisation proceeds in April was £0.9 billion compared with £2.2 billion in April 1987. The main difference between April 1987 and April 1988 is lower central government expenditure, partly due to the lower than usual payment of Rate Support Grant retrospective adjustments and the timing of Easter causing lower than usual social security expenditure.

5. THE CGBR(O) outturn for April was slightly below the final Budget profile. Central government departmental expenditure was £0.3 billion lower mainly due to lower than forecast expenditure by MoD and higher receipts for ECGD. (The former may have reflected higher spending in March).

6. The local authorities' borrowing requirement (LABR) in April was £0.9 billion, a little higher than the final Budget profile, and somewhat higher than in the previous 3 years. This higher borrowing may be due to the lower LA receipts of Rate Support Grant.

7. The Public corporations borrowing requirement in April was provisionally a net repayment of £0.3 billion, close to the forecast repayment of £0.2 billion in the final Budget profile.

#### May to July

8. The PSBR is forecast to be £0.7 billion over the next three months with borrowing in May and June followed by a small net repayment in July. This compares with forecast borrowing of £0.5 billion in the Budget profile.

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

- In May the CGBR(O) is forecast to be over £½ billion. High debt interest payments and relatively low Inland Revenue receipts are partly offset by privatisation proceeds from the second call of British Airports Authority (£¾ billion), the final redemption of BT preference shares (£¼ billion), and by relatively high Customs and Excise receipts.
- In June the CGBR(O) is forecast to be nearly £1 billion. Customs and Excise

## CONFIDENTIAL AND PERSONAL

receipts are relatively low. Privatisation proceeds from the sale of the National Bus Company are expected to yield £0.1 billion.

- In July the CGBR(O) is forecast to be a net repayment of nearly £¼ billion. Receipts of Advanced Corporation Tax will exceed £1¼ billion, but interest payments are very high and interest and dividend receipts are low. The forecast also assumes a net payment to Rover of £650 million, in connection with the sale of the company to British Aerospace. However, both the size and timing of the payment is uncertain.

10. The LABR is forecast to be a net repayment of £0.2 billion over the next three month, the same level as forecast in the Budget profile, and a similar level to last year.

11. Public corporations are forecast to be repaying debt in May and July but borrowing in June. The Post Office and Electricity are expected to make large net repayments in May and July. The Water authorities are forecast to borrow £100 million in June.

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

Table 2: CGBR(O) April - July: Differences from Budget profile

	£ billion	percentage difference
<b>Receipts</b>		
Inland Revenue	-0.1	-0.7
Customs and Excise	--	-0.1
NICs	-0.3	-3.1
Privatisation proceeds	--	-0.1
Interest and dividends	+0.1	+5.9
Other receipts	--	+2.2
<b>Total receipts</b>	<b>-0.3</b>	<b>-0.6</b>
<b>Expenditure</b>		
Interest payments	+0.1	+0.9
Departmental expenditure <sup>(1)</sup>	-0.4	-0.9
<b>Total expenditure</b>	<b>-0.3</b>	<b>-0.7</b>
<b>Net effect on CGBR(O)</b>	<b>--</b>	

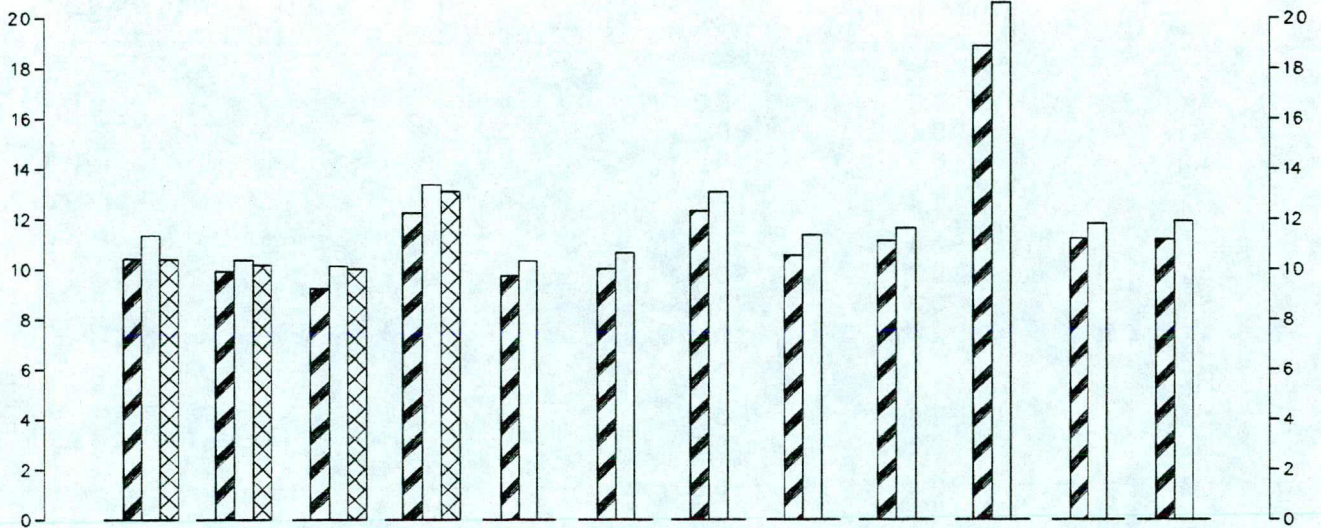
<sup>(1)</sup> on a cash basis, net of certain receipts and on-lending

**Chart 4: Components of central government receipts and expenditure**

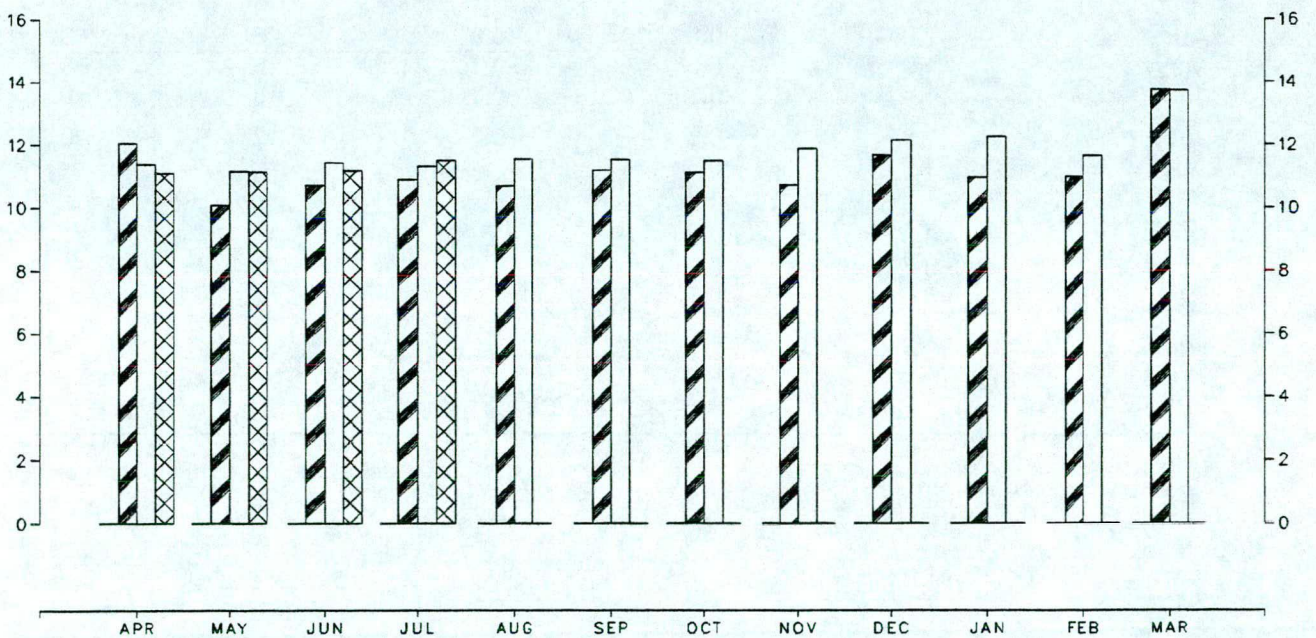
£ billion

-  = 1988-89: Outturns
-  = 1988-89 Budget forecasts
-  = Outturn in 1987-88

**(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS**



**(II) DEPARTMENTAL EXPENDITURE**



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**Table 3: PSBR for 1988-89 - comparisons with 1987-88 and 1987 Budget profile**

£ billion

	1987-88	1988-89	Differences from		
	Outturn	Budget profile	Latest update <sup>(1)</sup>	1987-88 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.0	-0.8	-0.9	-3.0	-0.1
May	-0.1	0.3	0.2	0.3	-0.1
Jun	-0.5	0.8	0.7	1.2	-0.1
Q2	1.4	0.3	-0.1	-1.5	-0.4
Jul	-0.4	-0.7	-0.2	0.2	0.5
Aug	0.7	-0.2			
Sep	0.2	1.7			
Q3	0.5	0.9			
Oct	-1.0	-1.6			
Nov	-1.6	0.7			
Dec	0.2	0.5			
Q4	-2.4	-0.5			
Jan	-6.4	-7.0			
Feb	-0.4	-			
Mar	3.9	3.1			
Q1	-2.9	-3.9			
<b>Cumulative</b>					
Apr	2.0	-0.8	-0.9	-3.0	-0.1
May	1.9	-0.5	-0.7	-2.6	-0.3
Jun	1.4	0.3	-0.1	-1.5	-0.4
Jul	1.0	-0.3	-0.3	-1.2	0.1
Aug	1.6	-0.5			
Sep	1.9	1.2			
Oct	0.8	-0.5			
Nov	-0.7	0.3			
Dec	-0.6	0.7			
Jan	-7.0	-6.3			
Feb	-7.4	-6.3			
Mar	-3.5	-3.2			

<sup>(1)</sup>Figures for April are outturns

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**Table 4: Borrowing requirement monthly profiles 1988-89**  
(Budget profiles in italics for comparison) £ Billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	<b>-0.9</b>	<i>-0.8</i>	<b>-1.5</b>	<i>-1.3</i>	<b>0.9</b>	<i>0.8</i>	<b>-0.3</b>	<i>-0.2</i>
May	<b>0.2</b>	<i>0.3</i>	<b>0.6</b>	<i>0.7</i>	<b>-0.2</b>	<i>-0.2</i>	<b>-0.2</b>	<i>-0.2</i>
Jun	<b>0.7</b>	<i>0.8</i>	<b>0.9</b>	<i>1.1</i>	<b>-0.3</b>	<i>-0.3</i>	<b>0.1</b>	<i>0.1</i>
Jul	<b>-0.2</b>	<i>-0.7</i>	<b>-0.2</b>	<i>-0.7</i>	<b>0.3</b>	<i>0.3</i>	<b>-0.3</b>	<i>-0.3</i>
<b>Cumulative</b>								
Apr	<b>-0.9</b>	<i>-0.8</i>	<b>-1.5</b>	<i>-1.3</i>	<b>0.9</b>	<i>0.8</i>	<b>-0.3</b>	<i>-0.2</i>
May	<b>-0.7</b>	<i>-0.5</i>	<b>-0.9</b>	<i>-0.6</i>	<b>0.7</b>	<i>0.6</i>	<b>-0.5</b>	<i>-0.5</i>
Jun	<b>-0.1</b>	<i>0.3</i>	<b>-</b>	<i>0.5</i>	<b>0.4</b>	<i>0.3</i>	<b>-0.5</b>	<i>-0.4</i>
Jul	<b>-0.3</b>	<i>-0.3</i>	<b>-0.2</b>	<i>-0.2</i>	<b>0.7</b>	<i>0.5</i>	<b>-0.7</b>	<i>-0.7</i>
	Excluding privatisation proceeds		CGBR(O)		LABR		Memo item: privatisation proceeds	
	PSBR							
Apr	<b>0.9</b>	<i>1.1</i>	<b>0.3</b>	<i>0.6</i>	<b>1.8</b>	<i>1.9</i>		
May	<b>1.2</b>	<i>1.3</i>	<b>1.6</b>	<i>1.6</i>	<b>1.0</b>	<i>0.9</i>		
Jun	<b>0.7</b>	<i>0.8</i>	<b>1.0</b>	<i>1.1</i>	<b>0.1</b>	<i>-</i>		
Jul	<b>-0.2</b>	<i>-0.7</i>	<b>-0.2</b>	<i>-0.7</i>	<b>-</b>	<i>-</i>		
<b>Cumulative</b>								
Apr	<b>0.9</b>	<i>1.1</i>	<b>0.3</b>	<i>0.6</i>	<b>1.8</b>	<i>1.9</i>		
May	<b>2.0</b>	<i>2.4</i>	<b>1.8</b>	<i>2.3</i>	<b>2.8</b>	<i>2.8</i>		
Jun	<b>2.8</b>	<i>3.2</i>	<b>2.8</b>	<i>3.3</i>	<b>2.8</b>	<i>2.8</i>		
Jul	<b>2.6</b>	<i>2.5</i>	<b>2.6</b>	<i>2.6</i>	<b>2.8</b>	<i>2.8</i>		

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**Table 5: Borrowing requirement Budget profiles 1988-89**  
(1987-88 outturns in italics for comparisons)

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	-0.8	<i>2.0</i>	-1.3	<i>1.9</i>	0.8	<i>0.5</i>	-0.2	<i>-0.4</i>
May	0.3	<i>-0.1</i>	0.7	<i>0.3</i>	-0.2	<i>-0.5</i>	-0.2	-
Jun	0.8	<i>-0.5</i>	1.1	<i>-0.5</i>	-0.3	<i>0.1</i>	0.1	<i>-0.1</i>
Jul	-0.7	<i>-0.4</i>	-0.7	<i>-0.3</i>	0.3	<i>0.2</i>	-0.3	<i>-0.3</i>
Aug	-0.2	<i>0.7</i>	-0.5	<i>0.9</i>	0.3	<i>-0.2</i>	0.1	<i>-0.1</i>
Sep	1.7	<i>0.2</i>	1.3	<i>-0.3</i>	0.2	<i>0.3</i>	0.2	<i>0.2</i>
Oct	-1.6	<i>-1.0</i>	-1.5	<i>-0.5</i>	-0.3	<i>-0.4</i>	0.1	<i>-0.1</i>
Nov	0.7	<i>-1.6</i>	1.2	<i>-0.9</i>	-0.4	<i>-0.6</i>	-0.1	<i>-0.1</i>
Dec	0.5	<i>0.2</i>	-	<i>-0.5</i>	0.4	<i>0.6</i>	0.1	<i>0.1</i>
Jan	-7.0	<i>-6.4</i>	-6.9	<i>-6.0</i>	0.1	<i>-0.1</i>	-0.3	<i>-0.4</i>
Feb	-	<i>-0.4</i>	0.1	<i>-0.3</i>	0.2	<i>0.2</i>	-0.3	<i>-0.4</i>
Mar	3.1	<i>3.9</i>	1.9	<i>2.8</i>	1.1	<i>1.2</i>	-	-
<b>Cumulative</b>								
Apr	-0.8	<i>2.0</i>	-1.3	<i>1.9</i>	0.8	<i>0.5</i>	-0.2	<i>-0.4</i>
May	-0.5	<i>1.9</i>	-0.6	<i>2.2</i>	0.6	<i>0.1</i>	-0.5	<i>-0.4</i>
Jun	0.3	<i>1.4</i>	0.5	<i>1.7</i>	0.3	<i>0.2</i>	-0.4	<i>-0.5</i>
Jul	-0.3	<i>1.0</i>	-0.2	<i>1.4</i>	0.5	<i>0.4</i>	-0.7	<i>-0.8</i>
Aug	-0.5	<i>1.6</i>	-0.7	<i>2.3</i>	0.8	<i>0.2</i>	-0.6	<i>-0.8</i>
Sep	1.2	<i>1.9</i>	0.6	<i>2.0</i>	1.0	<i>0.5</i>	-0.4	<i>-0.7</i>
Oct	-0.5	<i>0.8</i>	-0.8	<i>1.5</i>	0.7	<i>0.1</i>	-0.3	<i>-0.8</i>
Nov	0.3	<i>-0.7</i>	0.4	<i>0.6</i>	0.3	<i>-0.5</i>	-0.4	<i>-0.8</i>
Dec	0.7	<i>-0.6</i>	0.4	-	0.7	<i>0.2</i>	-0.3	<i>-0.7</i>
Jan	-6.3	<i>-7.0</i>	-6.5	<i>-5.9</i>	0.8	<i>0.1</i>	-0.5	<i>-1.1</i>
Feb	-6.3	<i>-7.4</i>	-6.4	<i>-6.2</i>	0.9	<i>0.3</i>	-0.8	<i>-1.5</i>
Mar	-3.2	<i>-3.5</i>	-4.5	<i>-3.4</i>	2.1	<i>1.5</i>	-0.8	<i>-1.5</i>
	Excluding privatisation proceeds		CGBR(O)		Memo item:		privatisation proceeds	
	PSBR							
Apr	1.1	<i>2.2</i>	0.6	<i>2.1</i>	1.9	<i>0.2</i>		
May	1.3	<i>0.4</i>	1.6	<i>0.8</i>	0.9	<i>0.5</i>		
Jun	0.8	<i>1.2</i>	1.1	<i>1.2</i>	-	<i>1.7</i>		
Jul	-0.7	<i>0.1</i>	-0.7	<i>0.2</i>	-	<i>0.6</i>		
Aug	2.0	<i>1.1</i>	1.6	<i>1.4</i>	2.2	<i>0.4</i>		
Sep	1.7	<i>0.8</i>	1.3	<i>0.3</i>	-	<i>0.6</i>		
Oct	-1.7	<i>-1.6</i>	-1.5	<i>-1.1</i>	-	<i>-0.6</i>		
Nov	0.7	-	1.2	<i>0.6</i>	-	<i>1.6</i>		
Dec	0.4	<i>0.4</i>	-	<i>-0.3</i>	-	<i>0.2</i>		
Jan	-7.0	<i>-6.4</i>	-6.9	<i>-6.0</i>	-	-		
Feb	-	<i>-0.4</i>	0.1	<i>-0.3</i>	-	-		
Mar	3.2	<i>3.9</i>	2.0	<i>2.8</i>	0.1	-		
<b>Cumulative</b>								
Apr	1.1	<i>2.2</i>	0.6	<i>2.1</i>	1.9	<i>0.2</i>		
May	2.4	<i>2.6</i>	2.3	<i>2.9</i>	2.8	<i>0.7</i>		
Jun	3.2	<i>3.8</i>	3.3	<i>4.1</i>	2.8	<i>2.4</i>		
Jul	2.5	<i>3.9</i>	2.6	<i>4.3</i>	2.8	<i>2.9</i>		
Aug	4.5	<i>5.0</i>	4.3	<i>5.7</i>	5.0	<i>3.4</i>		
Sep	6.2	<i>5.8</i>	5.6	<i>6.0</i>	5.0	<i>4.0</i>		
Oct	4.5	<i>4.2</i>	4.1	<i>4.9</i>	5.0	<i>3.4</i>		
Nov	5.2	<i>4.2</i>	5.3	<i>5.5</i>	5.0	<i>5.0</i>		
Dec	5.7	<i>4.6</i>	5.3	<i>5.2</i>	4.9	<i>5.1</i>		

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Jan	-1.3	-1.8	-1.6	-0.8	4.9	5.1
Feb	-1.4	-2.3	-1.5	-1.1	4.9	5.1
Mar	1.8	1.6	0.5	1.7	5.0	5.1

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ANNEX A

Budget profiles for Supply Expenditure (1988-89)

The final Budget profiles for Supply expenditure are shown in Table 1 of the annex. This table also compares the profiles with the measured pattern for Supply expenditure in 1987-88.

2. The profile shows expenditure more evenly distributed than experienced in 1987-88, with the following main features:

i. proportionally lower expenditure anticipated in April for both cash limited and non-cash limited expenditure, resulting in a lower starting year surge than experienced in the last two years; and

ii. lower expenditure in March 1989 for non-cash limited expenditure.

iii. The profiled end-year surge on cash limited expenditure in March 1989 is slightly lower than that experienced in 1988, but somewhat higher than that of 1987, excluding the effect of the payment to Rover in March 1987.

3. The most significant factor accounting for the reduced starting surge on cash limited Votes is the much lower level of prior year

adjustments on Rate Support Grants than experienced in the last two years. Additionally, the timing of Easter this year and the lower number of peak benefit payment days in April has produced a lower than normal April expenditure for Social Security Benefit payments, contributing to the lower starting spend on non-cash limited expenditure.

4. The lower March position for non-cash limited expenditure is the result of several factors, including:

- i. lower end-year spending on nationalised industry finance;
- ii. a switch from net expenditure to net receipts for March on Teachers Superannuation.

TABLE 1

## a) MONTHLY SUPPLY EXPENDITURE PROFILE 1987-1988 AND 1988-1989 (£M)

		APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	TOTAL
CASH LIMITED (INC TOKEN VOTES IN 1988-89)	1988-89	5402	4902	5175	5480	5110	5300	5439	5579	5693	5889	5822	7328	67219
	1987-88	5728	4396	4896	4993	4841	5002	5057	4999	5226	5422	5435	6980	62975
NON-CASH LIMITED	1988-89	3629	3798	3365	3302	3748	3440	3602	3754	3577	3837	3229	3440	42721
	1987-88	3832	3399	3317	3271	3429	3859	3396	3632	3575	3374	3246	3927	42257
TOTAL SUPPLY EXPENDITURE	1988-89	9031	8700	8540	8782	8959	8741	9041	9333	9270	9726	9051	10768	109940
	1987-88	9560	7795	8213	8264	8270	8861	8453	8631	8801	8796	8681	10907	105232

## b) MONTHLY SUPPLY EXPENDITURE PROFILE 1987-1988 AND 1988-1989 (PERCENTAGE OF ANNUAL TOTAL)

		APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
CASH LIMITED (INC TOKEN VOTES IN 1988-89)	1988-89	8.1	7.3	7.7	8.1	7.8	7.9	8.1	8.3	8.5	8.8	8.6	10.9
	1987-88	9.1	7.0	7.8	7.9	7.7	7.9	8.0	7.9	8.3	8.6	8.6	11.1
NON-CASH LIMITED	1988-89	8.5	8.9	7.9	7.7	8.8	8.1	8.4	8.8	8.4	9.0	7.6	8.1
	1987-88	9.1	8.0	7.8	7.7	8.1	9.1	8.0	8.6	8.5	8.0	7.7	9.3
TOTAL SUPPLY EXPENDITURE	1988-89	8.2	7.9	7.8	8.0	8.1	7.9	8.2	8.5	8.4	8.8	8.2	9.8
	1987-88	9.1	7.4	7.8	7.9	7.9	8.4	8.0	8.2	8.4	8.4	8.2	10.4

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*mpw*



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Major MP  
Chief Secretary  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

CHIEF SECRETARY	
REC.	26 MAY 1988
ACTION	<i>Mr Hill</i>
COPIES TO	<i>Ex Sir P. M. D. O'Leary</i>
	<i>Mr Hanson, Mr Phillips,</i>
	<i>Mr Burgess, Mr Williams</i>
	<i>Miss Pearson, Mr McIntyre</i>
	<i>Mr Greaves, Mr Lyle</i>
	<i>Mr Tomblin, Mr MacAuslan</i>
	<i>Miss S. Walker, Mr Call</i>

*Ch/*  
*just arrived.*  
*(I think you saw a letter on Scottish Forestry)*  
*Quite right.*  
25 May 1988  
*mpw*

*Dear John,*

PES 1988

As requested in the Survey guidelines, I am writing to convey my proposals for the resources required for my programmes outside the Scottish Block.

My bids for non-block programmes are summarised below and more detail is given in the Annex. John MacGregor will be writing to you separately about a number of agricultural and fisheries issues; the table below and the Annex cover bids on my domestic Agriculture programme:

	£m		
	1989-90	1990-91	1981-92
Agriculture and Fisheries	+ 3.6	+ 4.1	+ 2.65
Industry	+ 21.5	+ 22.5	+ 22.4
Electricity privatisation	+ 5.5	+ 4.0	- 0.5
Transport privatisation	+ 0.5	-	-
Housing subsidies (revised economic assumptions)	- 3.570	- 3.759	-
<b>Total bids</b>	<b>+ 27.53</b>	<b>+ 26.841</b>	<b>+ 24.55</b>

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I also expect, as last year, to make a bid for any PES transfers to DHSS for housing benefit. Like the other housing Ministers, however, I am not yet in a position to quantify my assessment of these issues and will write again with the information as soon as possible. Departmental running costs are the subject of a separate letter.

Copies of this letter go to the Prime Minister, John MacGregor,  
David Young, John Moore, Norman Fowler, Nicholas Ridley,  
Paul Channon, Cecil Parkinson, Peter Walker, Tom King and  
Sir Robin Butler.

*Yours ever,  
Malcolm Rifkind*

**MALCOLM RIFKIND**

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**AGRICULTURE AND FISHERIES**

## ADP

1. In the 1986 PES round approval was given to the 5 year ADP for the Scottish islands. In the 1987 round you agreed to a re-scheduling of the expenditure profile to reflect greater expenditure at the front end of the programme. Expenditure has, of course, an overall limit and also is subject to in-year cash limits. To provide for expenditure in year 4 of the ADP (1991-92) consistent with the profile agreed in last year's PES, the ADP baseline for 1991-92 should be £7.25m. I accordingly make the following bid:

		£m
1989-90	1990-91	1991-92
-	-	2.25

## FISHERIES PROTECTION

2. DAFS will require to replace an inshore surveillance aircraft (Cessna Titan) as it reaches the end of its useful life. I therefore enter a bid (entered last year for 1990-91 but withdrawn at the AFF bilateral) as follows:

		£m
1989-90	1990-91	1991-92
-	2.0	-

## LA HARBOURS

3. Current conventions oblige us to include within AFF PES the capital cost of LA harbours provision. Whether or not individual projects are in receipt of grant under the DAFS scheme for fishery harbours we must provide in the AFF PES for the full cost of expenditure by local authorities on harbour proposals so that, in due course, the SOLA1 cash limit for any supply year may accommodate consents for capital spending on such projects.

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4. I am currently considering 7 substantial fisheries harbour projects as well as a number of minor schemes. Of the 7 major projects 6 are likely to attract grant-aid from DAFS. The grant offers from the Department (agreed with Treasury as necessary) indicate that these projects are of high priority. On present plans, however, there seems likely to be some bunching of capital consents and on that basis I make a bid for £1.5m in 1989-90 and £0.3m in 1991-92. There is a separate problem relating to a planned major development at Symbister in Shetland. While not a landing port, Symbister harbours the fleet on the island of Whalsay. The fleet is valued at between £40m and £50m and is one of the biggest and most modern of the UK purser fleets. As the size of boats in the fleet has grown in recent years existing facilities at Symbister have become less able to cope. Because of increasing numbers of dangerous incidents involving boats the Shetlands Islands Council have argued strongly that the necessary provision should be made to allow them to fund from their own resources improvements to the harbour. We are satisfied that the development of the harbour at Symbister will not adversely affect other ports. On the basis of the current grant scheme I do not feel able to offer grant aid in the face of other competing cases but I see merit in opening up the possibility for the project to proceed through the granting of the necessary authority to incur capital spending. It is obviously difficult to accommodate such a large scheme within the limited resources available.

#### OTHER AGRICULTURE

5. I also have a number of small bids for SAC/SARI operating costs, RBG VAT, ASS equipment, sheep compensation and capital grants. I propose to set these off against efficiency savings on fisheries protection.

#### INDUSTRY

6. The bids will enable me: to meet the unavoidable costs arising from the decision to end Regional Development Grant, while at the same time retaining the ability to offer Regional Selective Assistance where the applicants can demonstrate that it is essential; to allow the Scottish Development Agency to continue its initiatives particularly in the inner cities and similar areas in renewing the environment and to enhance its contribution to the enterprise initiative; and to allow the Highlands and

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Islands Development Board to continue its job creation activities in a difficult area badly hit by the downturn in oil related industry.

7. Savings available from the programme are, I am afraid, minimal. I have, however, kept the bids down to the lowest possible level consistent with the achievement of our objectives. In particular, I have reviewed carefully the ability of the two development agencies to obtain increased receipts, both through better returns from the assets they retain and through a vigorous policy of disposals. I have set testing targets.

The bid is:

	£million		
	1989-90	1990-91	1991-92
Regional Development Grant	10.2	4.3	-
Regional Enterprise Grant (Innovation)	-	-	2.4
Scottish Development Agency	8.1	14.6	17.1
Highlands and Islands Development Board	3.2	3.6	5.3
	<hr/>		
Less	21.5	22.5	24.8
Estimating Savings	-	-	(2.4)
	<hr/>		
	21.5	22.5	22.4
	<hr/>		

#### REGIONAL DEVELOPMENT GRANT

8. As your officials will have told you, the number of applications for grant following the announcement of the ending of the scheme was more than expected throughout Great Britain. Some of these applications are undoubtedly speculative: many will not stand scrutiny or will not lead to payments of the full amounts claimed. We have made robust assumptions about the effect of these factors but still reckon that demand will exceed provision.

#### REGIONAL ENTERPRISE GRANT (INNOVATION)

9. This new grant was introduced as part of the enterprise initiative; and is an important vehicle for encouraging investment by the very smallest firms. Demand will increase as the availability of RDG disappears. The increased provision will lead to an additional £16 million of investment in 1991-92 from concerns with less than 25 employees.



## SCOTTISH DEVELOPMENT AGENCY

10. The baseline contains a quirk in that it was constructed on the basis of the extraordinarily high level of receipts potentially available to the Agency this year because of the Garden Festival in Glasgow. These will not be available in future. I have pressed the Agency to increase their other income. And I have been successful: I have set tough targets to be achieved by further disposals of appropriate assets to the private sector; by imaginative and more commercial management of its estate including greater private sector involvement; and by increasing rents and other charges where the market will bear it.

11. These efforts, however, cannot compensate wholly for the loss of the Garden Festival income, which is, of course, a "one-off". In the absence of increased provision the Agency will be forced to cut back on important current activities.

12. Following the Treasury/Scottish Office Review in 1986, the Agency's objectives are now clearly established for a number of years ahead by virtue of the Corporate Strategy. We have discussed with the Agency their spending plans for the year ahead in the light of the Corporate Strategy. I have made it clear that it is unrealistic to expect any increase in gross provision given the existing baseline (and notwithstanding the increase for the Welsh Development Agency in last year's round) and I am making a bid only on the basis of maintaining gross expenditure in real terms.

13. Within that overall level of expenditure there would, however, be substantial changes in priorities. For example, spending on provision of accommodation would reduce by 25 per cent, partly due to the expectation of increasing substitution of private investment for Agency funds. In line with the thrust of the Enterprise Initiative, spending on improving advice and information services to private sector companies would be doubled. The other arm of the Agency's activities is environmental renewal and I am concerned that the Agency should be in a position to contribute sufficient resources to the Peripheral Housing Estates Initiative, which I announced recently. There are changing priorities under this head, with a move away from isolated renewal schemes to

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~~Integrated~~ area programmes, peripheral housing estates, city and town ~~centres~~ and the surroundings of tourist attractions.

~~12~~ In the inner cities and peripheral estates the Agency's role in ~~improving~~ the environment is a key factor in our efforts to revitalise these ~~areas~~ through new private sector investment. The bid would allow us to ~~start~~ a further 30 or so projects involving about 125 hectares.

~~13~~ The bid is associated with inward investment targets of more than 25 ~~projects~~ and nearly 2,000 new jobs over the PES period.

#### HIGHLANDS AND ISLANDS DEVELOPMENT BOARD

~~14~~ The unemployment rate in the Highlands and Islands is now ~~7 per~~ cent higher than in Scotland as a whole, and 47 per cent higher ~~than~~ in the UK, with particular blackspots in Invergordon, Skye and ~~Western~~ Ross, and Western Isles. This reflects the downturn in oil related ~~industry~~ which, although showing some signs of recovery, is unlikely to ~~employ~~ anything like the same number of people again.

17. The extra provision is required to allow an increase in financial assistance, with a further 650 jobs over the PES period; adequate ~~advance~~ factory space, particularly in Invergordon, with the potential of ~~housing~~ an extra 45 to 60 jobs each year; and reinforcement of the Board's tourism and product marketing. Once again, I have looked carefully at the possibility of increasing receipts. Capital receipts fluctuate but income from rents is set to increase: the 1991-92 level being double that in 1987-88. Generally, I am satisfied that tough targets have been set.

#### PRIVATISATION

18. The preliminary expenses of privatising the Scottish Electricity Boards are proving more expensive than was first realised. In addition I

will be faced with procuring specialist financial and property advice in connection with the selling of bus operations. The total bids are:

		£m
1989-90	1990-91	1991-92
+ 6.0	+ 4.0	- 0.5

19. I will also have to meet further expenditure of £0.5m or so for the Bus Group in 1990-91. We should, however, be getting receipts from the first of the sales by that time. In not making a bid for 1990-91 I am assuming that these receipts will be available as a credit item on the programme.

20. The expenditure is necessary if we are to fulfil our objectives for the future of these industries while at the same time meeting the concerns that have been expressed by the PAC. No specific incremental output measures are possible but the success of the programme will lie in the safe delivery of the industries into private hands.

#### HOUSING SUBSIDIES

21. We have a changed requirement for housing subsidies (housing support grant and SSHA and New Towns housing deficit grant) in order to reflect changes in Treasury's interest rate forecasts. Although provision for these subsidies is within the block, there are special PES arrangements under the 'concordat' which provide for automatic increases or decreases to reflect interest rate changes as an alternative to the normal formula arrangements. The changes currently calculated, which are subject to further adjustment to reflect further interest rate changes, are:

	£m
1989-90	1990-91
- 3.570	- 3.759

FROM: COLIN MOWL  
DATE: 9 June 1988

CHANCELLOR OF THE EXCHEQUER

*Tony D*  
*Thanks.*

cc Sir P Middleton  
Sir T Burns  
Mr Scholar o.r  
Mr Peretz  
Mr Sedgwick  
Mr Ritchie  
Mrs Todd  
Miss Chapman

**PSBR IN MAY**

The first provisional outturn for the PSBR in May is a net repayment of £0.4 billion. It is subject to revision before publication on Thursday 16 June.

*terminology getting v. confusing!*

2. The provisional outturn is £0.6 billion lower than last month's forecast. A £1 billion overforecast of the CGBR(0) was partially offset by underforecasts of the LABR and PCBR. *(better)*

3. The net repayment on the central government own account in May is provisionally £0.4 billion as reported in Mrs Todd's minute of 2 June 1988. Mrs Todd's minute (copy attached) gives details of the difference between forecast and outturn.

4. The LABR in May is provisionally borrowing of £0.1 billion and the PCBR provisionally a net repayment of £0.1 billion.

5. The PSBR in the first two months of 1988-89 is a net repayment of £1.4 billion, a £0.9 billion higher repayment than forecast in the Budget profile. A higher net repayment of £1.4 billion on the CGBR(0) is partially offset by higher local authority borrowing of £0.4 billion. The PCBR is much the same as profile.

6. The monthly note, presenting updated estimates for May and forecasts for June to August, will be circulated next Wednesday.

*Colin Mowl*

COLIN MOWL

	May 1988			April - May 1988			April - May 1987
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
CGBR (O)	- 0.4	0.6	- 1.0	- 2.0	- 0.6	- 1.4	2.2
LABR	0.1	- 0.2	+ 0.3	1.0	0.6	+ 0.4	0.1
PCBR	- 0.1	- 0.2	+ 0.2	- 0.4	- 0.5	+ 0.1	- 0.5
PSBR	- 0.4	0.2	- 0.6	- 1.4	- 0.5	- 0.9	1.9
PSBR excluding privatisation proceeds	0.6	1.2	- 0.6	1.4	2.4	- 1.0	2.5

74B/SB/2601/026

Very early days, but  
this is a big understatement  
even taking into account  
the cautious nature of the

1. MR MOWL ✓ Budget forecast. We shall
2. CHANCELLOR be providing a new view  
of the year as a whole  
later this month in the  
economic forecast.

ETM

FROM: MRS TODD  
DATE: 2 June 1988

cc: Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Scholar o.r.  
Mr Sedgwick  
Mr Peretz  
Mr Watts  
Mr Ritchie

#### CGBR(O) AND CGBR IN MAY

The provisional outturn for the CGBR(O) in May is a net repayment of £0.4 billion, compared with the forecast made last month for borrowing of £0.6 billion. The estimate of the CGBR(O) outturn is subject to revision before publication on Thursday 16 June.

2. The main differences from forecast were higher Inland Revenue receipts (by £0.5 billion) and higher other receipts (by £0.2 billion) mainly due to an increase in the balance held on behalf of the European Community (by £0.3 billion). There were also slightly higher receipts from Customs and Excise, from National Insurance Contributions and from interest receipts (all up by £0.1 billion). Departmental expenditure was also slightly lower than forecast (by £0.1 billion). Full information about the higher than expected Inland Revenue receipts is still to come; provisional analysis suggests that they may be partly accounted for by higher income tax and higher receipts of advanced corporation tax.

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3. In the first two months of 1988-89, the CGBR(O) is a net repayment of £1.9 billion, compared with the Budget profile forecast of a net repayment of £0.6 billion. The main factors underlying the difference are:

a. Higher Inland Revenue receipts (by £0.4 billion), mainly due to higher Income Tax (but subject to further analysis of May receipts).

b. Higher interest receipts (by £0.2 billion).

c. Higher other receipts (by £0.3 billion), more than accounted for by higher balances held on behalf of the European Community.

d. Lower departmental expenditure (by £0.4 billion).

4. On-lending to local authorities and public corporations in May totalled £0.2 billion. The provisional CGBR in May is therefore a net repayment of £0.1 billion. The cumulative CGBR to May is a net repayment of £0.8 billion.

5. Further analysis of the CGBR(O) outturn in May will be given in the next Ministerial note on the PSBR in two weeks' time.

*P. Todd*

P TODD

CONFIDENTIAL AND PERSONAL  
CENTRAL GOVERNMENT TRANSACTIONS

£ billion.

	May 1988			April-May 1988			April-May 1987
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
<b><u>Receipts</u></b>							
Inland Revenue	4.3	3.8	0.5	9.5	9.1	0.4	8.6
Customs and Excise	4.0	4.0	0.1	7.9	7.9	-	7.4
National Insurance Contributions	2.5	2.4	0.1	4.7	4.6	0.1	4.1
Privatisation proceeds	1.0	1.0	-	2.8	2.8	- 0.1	0.7
Interest and dividends	0.7	0.6	0.1	1.4	1.2	0.2	1.3
Other receipts	0.5	0.3	0.2	0.6	0.3	0.3	0.5
<b>Total receipts</b>	<b>13.0</b>	<b>12.1</b>	<b>0.9</b>	<b>26.9</b>	<b>25.9</b>	<b>1.0</b>	<b>22.6</b>
<b><u>Expenditure</u></b>							
Debt interest payments	1.6	1.6	-	2.8	2.8	-	2.7
Departmental expenditure (a)	11.1	11.1	- 0.1	22.2	22.5	- 0.4	22.1
<b>Total expenditure</b>	<b>12.6</b>	<b>12.7</b>	<b>- 0.1</b>	<b>25.0</b>	<b>25.3</b>	<b>- 0.3</b>	<b>24.8</b>
<b>CGBR(O)</b>	<b>- 0.4</b>	<b>0.6</b>	<b>- 1.0</b>	<b>- 1.9</b>	<b>- 0.6</b>	<b>- 1.3</b>	<b>2.2</b>
<b>CGBR(O) excluding privatisation proceeds</b>	<b>0.6</b>	<b>1.6</b>	<b>- 1.0</b>	<b>0.8</b>	<b>2.3</b>	<b>- 1.4</b>	<b>2.9</b>
On-lending to LAs	0.1	0.2	- 0.1	1.2	0.9	0.3	2.6
On-lending to PCs	0.1	0.3	- 0.2	- 0.1	-	- 0.1	- 0.7
<b>CGBR</b>	<b>- 0.1</b>	<b>1.1</b>	<b>- 1.2</b>	<b>- 0.8</b>	<b>0.3</b>	<b>- 1.1</b>	<b>4.1</b>

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure  
- = lower receipts, and lower borrowing, lower expenditure



FROM: COLIN MOWL  
DATE: 9 June 1988

ECONOMIC SECRETARY

cc Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Scholar o.r.  
Mr Odling-Smee  
Mr Sedgwick  
Mr Peretz  
Mr Grice  
Ms O'Mara o.r.  
Mr S J Davies  
Mr Gieve  
Mr Pickford  
Mr Ritchie  
Mr Franklin  
Ms Bronk

**PUBLIC CORPORATIONS NOTES AND COIN: REVISIONS TO THE PSBR AND MONETARY AGGREGATES**

This minute, agreed with MG, advises you of some minor revisions back to 1975 to the PSBR and monetary aggregates (except for MO) arising from the use of newly available data on public corporations notes and coin.

**Background**

2. The measurement conventions underlying the PSBR were changed in 1984 so that changes in public sector bank deposits and other liquid assets were regarded as financing the PSBR rather than directly contributing to it. (At the same time broad monetary aggregates were redefined to exclude the public sector's bank deposits.) As a result changes in public corporations notes and coin should have been treated as a PSBR financing transaction. But this was not possible as the Economic Trends (February 1984) article explaining the changes pointed out:

"In principle notes and coin held by the public sector should also be excluded from the PSBR (and the money stock). However, it has proved difficult to get regular, timely and accurate figures. It has therefore not been possible to produce figures upon which to base such a revision."

3. A number of public corporations hold notes and coin but the Post Office is the largest single holder (accounting for almost all of the total on the new figures). For some time the CSO and Bank have sought to improve the availability and quality of estimates of public corporations (PC) notes and coin. They now advise that newly available data, which goes back to the mid-1970s, is of reasonable quality and can be used for compiling both the PSBR and monetary aggregates, necessitating small revisions to the back figures. All the monetary aggregates, except for MO, would be affected.

#### The PSBR

4. For reasons of timeliness and accuracy the PSBR is measured from the financing side of the public sector accounts. Changes in public corporation holdings of notes and coin are a financing transaction but for the practical reasons given in the Economic Trends article the implicit assumption in currently published PSBR figures has been that such changes are zero. The effects on financial year totals for the PSBR of using the new public corporation notes and coin data are shown below (the 1987-88 revision is a composite of this and other revisions):

#### Effect on PSBR - £ million

1976-77	-	40
1977-78	+	8
1978-79	-	61
1979-80	-	94
1980-81	-	168
1981-82	+	102
1982-83	+	91
1983-84	-	30
1984-85	-	98
1985-86	-	94
1986-87	+	91
1987-88	+	33

These are very small changes, with no significance for the interpretation or presentation of policy. The largest revision, to 1980-81, is considerably smaller than 0.1 per cent of money GDP.

5. Publication of these revisions would not undermine the argument that the PSBR is less subject to revision than other fiscal indicators such as the PSFD. Not only are these revisions very small but they can be presented as an improvement in quality which was trailed in the Economic Trends article. The revisions would not be part of a sequence of revisions but a one-off event.

6. Figures on PC notes and coin will not be available in time for the first published estimate of the PSBR each month. The first estimate would need to be revised therefore as the PC notes and coin data become available. Most of the revision would occur in the following month. The size of these revisions are however unlikely to be significantly larger than those which occur at present.

### **Monetary Aggregates**

7. The effect on all the monetary aggregates of including the new data will, with the exception of M0, be to correct the private sector notes and coin component. At present this includes (by residual) notes and coin held by the public sector. The revisions, to flows data will be the same as the PSBR revisions, while stocks outstanding will be reduced by about £500 million. Revisions to growth rates will be minimal - at most 0.2% and generally less. As with the PSBR, the inclusion of the new series will remove a conceptual anomaly, and there will be some increase in revisions each month to the previous month's figures. M0 will not be affected since it is defined to include the total of notes and coin in circulation (the revisions re-allocate the given total among sectors).

### **Timing and Presentation**

8. The most appropriate time to publish PSBR revisions is in the early part of the financial year. It is proposed to make the PSBR revisions first, in the PSBR press notice on 16 June, with the revisions to the monetary aggregates in the Bank of England press notice on the provisional money figures on 20 June. As well as an explanation in notes to editors there would subsequently be brief notes, including longer runs of data, in the Bank of England Quarterly Bulletin and Economic Trends.

Conclusions

9. You are invited to note that the June PSBR and money press notices will include small revisions back to 1975 for the PSBR and monetary aggregates other than MO.

*Colin Mowl*

**COLIN MOWL**

*1. Not to include  
Stocks  
presentations  
We should not  
practice unless  
reason for  
is not  
PSBR  
is not  
proportion  
on home  
money. And  
to submit  
for  
for  
suggestions  
final  
to  
but  
last.  
X & Y  
no  
propose*

FROM: COLIN MOWL  
DATE: 14 June 1988

CHANCELLOR OF THE EXCHEQUER

- cc Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee
- Mr Gieve
- Mr Bush
- Mr Ritchie
- Ms Chapman

*Ch  
OK?*

*AA*

DRAFT PRESS BRIEFING ON PSBR IN MAY

I attach the draft Treasury Reuters pages and press briefing on the PSBR in May.

- The estimate of the PSBR in May to be published on Thursday is a net repayment of £0.6 billion, a £0.2 billion higher repayment than the first estimate I reported on 9 June.
- Available City forecasts cover an unusually wide range this month, from a net repayment of £1.5 billion to borrowing of £0.9 billion. The average is a net repayment of £0.2 billion. There may again be press stories that the Government has money "pouring out of its ears". In drafting the briefing we have paid some attention to the possible effect of this on demands for extra public expenditure - by drawing attention to the sizeable claims on the Reserve this year (see question 8) - as well as on the markets.
- The first of the Reuters pages follows the previously agreed format, including the comparisons of the cumulative outturn to date, including and excluding privatisation proceeds, with the previous year. But these are shown in square brackets because we would prefer to omit them this month. The substantive argument for doing so is that two months is still too short a period for

*Seems sensible, unless danger of stories that we are fiddling agreed presentation (I have to advise)?*

meaningful comparisons. The presentational argument for omitting them is that it would be very much leading with our chin to draw attention to the lower level of the PSBR so far this year.

5. The second Reuters page and the press briefing cover the (very) small revisions to earlier years arising from the use of the newly available data on public corporations notes and coin. (I attach, to the top copy only, my minute of 9 June on this to the Economic Secretary). Although the revisions are trivial we told City analysts when launching the Reuters pages that revisions and special factors would be included.

6. As usual the Reuters pages and press briefing have been discussed with Mr Scholar and IDT.

7. We should be grateful for comments on the Reuters pages and press briefing during the course of Wednesday morning. In particular we should like your agreement to the omission of the words in square brackets on the first Reuters page.

*Colin Mowl*

COLIN MOWL

DRAFT

TREASURY REUTERS' PAGES

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238  
PSBR IN MAY 1988 = SUMMARY

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IS PROVISIONALLY ESTIMATED TO HAVE BEEN MINUS STG 0.6 BILLION IE. A NET REPAYMENT IN MAY. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 1.8 BILLION IE. A NET REPAYMENT FOR THE FIRST TWO MONTHS OF 1988-89 [COMPARED WITH BORROWING OF STG 1.9 BILLION IN THE SAME PERIOD LAST YEAR]. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 1.0 BILLION IN THE FIRST TWO MONTHS OF 1988-89 [COMPARED WITH STG 2.5 BILLION IN THE SAME PERIOD OF LAST YEAR].

No of characters used including spaces: 510  
No of characters remaining including spaces: 90

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238  
PSBR IN MAY 1988 = 2

THE PSBR FOR MAY 1988 IS PROVISIONALLY ESTIMATED AT MINUS STG 0.6 BILLION IE. A NET REPAYMENT. PRIVATISATION PROCEEDS WERE STG 0.9 BILLION FROM BAA SECOND CALL AND REDEMPTION OF BRITISH TELECOM PREFERENCE SHARES. DOWNWARD REVISION TO APRIL PSBR OF STG 0.1 BILLION. ALSO, EXCEPTIONALLY, SOME MINOR REVISIONS TO PREVIOUS YEARS ARISING FROM CHANGE IN TREATMENT OF PUBLIC CORPORATIONS NOTES AND COINS - IN MOST YEARS STG 0.1 BILLION OR LESS.

No of characters used including spaces: 450  
No of characters remaining including spaces: 600

DRAFT

TREASURY REUTERS' PAGES

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN MAY 1988 = 3

STG MILLION	MAY 88	88-89 CUM	87-88 CUM
CGBR	-254	-932	4082
CGBR OWN A/C	-497	-2043	2240
LABR	79	852	90
FROM CG	125	1219	2583
OTHER	-46	-367	-2493
PCBR	-206	-562	-480
FROM CG	118	-108	-741
OTHER	-324	-454	261
PSBR	-624	-1753	1850

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN MAY 1988 = 4

STG MILLION	MAY 88	88-89 CUM	87-88 CUM
CONSOL FUND TOTAL REV	10340	19973	17261
OF WHICH INLAND REV	4298	9510	8607
CUSTOMS AND EXCISE	4042	7950	7397
OTHER	2000	2513	1257
CF TOTAL EXPENDITURE	9927	20382	20318
OF WHICH SUPPLY SERVICES	8219	17328	17626
STANDING SERVICES	1708	3054	2692
CF SURPLUS+/DEFICIT-	413	-409	-3057
SUPPLY EXPENDITURE	8430	17181	17360

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238

PSBR IN MAY 1988 = 5

STG MILLION	MAY 88	88-89 CUM	87-88 CUM
<b>NATIONAL LOANS FUND</b>			
RECEIPTS	1607	2932	2703
PAYMENTS	1785	4141	4656
BORROWING	-235	1618	5010
OTHER CGFA	-34	2498	928
<b>PRIVATISATION PROCEEDS STG BN</b>			
CURRENT MONTH		88-89	87-88
		0.9	0.5
CUMULATIVE		2.7	0.7

DRAFT



From: ALLEN RITCHIE  
 16 June 1988

MR J. GIEVE - IDT  
 MR LANG - CSO Press Office

cc List A

List B  
 (distributed at 11.30am, 16 June)

Chancellor  
 Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Monck  
 Mr Scholar  
 Mr Peretz  
 Mr Sedgwick  
 Mrs Butler  
 Mr Grice

Mr Mowl  
 Miss O'Mara  
 Mr Pickford  
 Mr Bush  
 Mr Franklin  
 Mr Hudson  
 Mrs Todd  
 Mr R Evans  
 Miss Chapman  
 Mr Mansell - CSO  
 Mr Richardson - CSO  
 Mr Wright B/E  
 Mr Gray - No 10

Mr C.M. Kelly  
 Mr Cropper  
 Mr Tyrie  
 Mr Call  
 Mr Ko - IR  
 Mr Balley - C and E

**BRIEFING FOR 16 JUNE PSBR PRESS NOTICE**

The PSBR figures for May will be published at 11.30am on 16 June. The provisional outturns, together with figures for 1987-88 are shown in Table 1. Cumulative figures for the PSBR and its components for 1986-87, 1987-88 and 1988-89 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

**Table 1: Borrowing requirement outturns** £ billion

	April-May 1987	April-May 1988	May 1988
Central government on own account	2.2	-2.0	-0.5
Local authorities	0.1	0.9	0.1
Public corporations	-0.5	-0.6	-0.2
PSBR	1.9	-1.8	-0.6
Memo: PSBR (excluding privatisation proceeds)	2.5	1.0	0.3

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		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
	Apr	0.2	1.9	<b>-1.5</b>	0.7	0.5	<b>0.8</b>	0.0	-0.4	<b>-0.4</b>	0.9	2.0
May	1.9	2.2	<b>-2.0</b>	0.4	0.1	<b>0.9</b>	-0.3	-0.5	<b>-0.6</b>	2.0	1.9	<b>-1.8</b>
Jun	3.1	1.7		-0.1	0.2		-0.5	-0.5		2.4	1.5	
Jul	3.1	1.4		-0.1	0.4		-0.8	-0.7		2.2	1.0	
Aug	4.2	2.3		0.2	0.2		-0.6	-0.9		3.8	1.7	
Sep	6.7	2.1		0.0	0.5		-0.8	-0.7		6.0	1.9	
Oct	6.5	1.5		-0.3	0.1		-0.3	-0.7		5.8	0.9	
Nov	7.3	0.6		-0.7	-0.5		-0.7	-0.8		5.8	-0.7	
Dec	5.7	0.1		-0.6	0.2		-0.7	-0.8		4.3	-0.5	
Jan	2.2	-5.9		-0.6	0.1		-1.0	-1.0		0.6	-6.8	
Feb	2.3	-6.2		-0.7	0.3		-1.4	-1.4		0.3	-7.3	
Mar	4.5	-3.4		0.2	1.5		-1.3	-1.6		3.4	-3.5	

Note: Figures may not sum precisely because of rounding.

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(Until 11.30am 18 May 1988)

**Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS**

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
	Apr	1.3	2.1	<b>0.3</b>	0.7	0.5	<b>0.8</b>	0.0	-0.4	<b>-0.4</b>	2.0	2.2
May	3.0	2.9	<b>0.7</b>	0.4	0.1	<b>0.9</b>	-0.3	-0.5	<b>-0.6</b>	3.0	2.5	<b>1.0</b>
Jun	4.2	4.1		-0.1	0.2		-0.5	-0.5		3.5	3.8	
Jul	4.2	4.3		-0.1	0.4		-0.8	-0.7		3.3	4.0	
Aug	5.3	5.7		0.2	0.2		-0.6	-0.9		4.9	5.0	
Sep	7.8	6.1		0.0	0.5		-0.8	-0.7		7.1	5.9	
Oct	7.5	4.9		-0.3	0.1		-0.3	-0.7		6.9	4.3	
Nov	8.6	5.5		-0.7	-0.5		-0.7	-0.8		7.1	4.2	
Dec	8.9	5.2		-0.6	0.2		-0.7	-0.8		7.6	4.6	
Jan	5.5	-0.8		-0.6	0.1		-1.0	-1.0		3.9	-1.7	
Feb	6.0	-1.1		-0.7	0.3		-1.4	-1.4		4.0	-2.2	
Mar	9.0	1.7		0.2	1.5		-1.3	-1.6		7.9	1.6	

Note: Figures may not sum precisely because of rounding.

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(Until 11.30am 18 May 1988)

**SUMMARY (PAGES 1 AND 2 OF TREASURY REUTERS PAGES)****Page One**

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IS PROVISIONALLY ESTIMATED TO HAVE BEEN MINUS STG 0.6 BILLION I.E. A NET REPAYMENT IN MAY. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 1.8 BILLION I.E. A NET REPAYMENT FOR THE FIRST TWO MONTHS OF 1988-89 [COMPARED WITH BORROWING OF STG 1.9 BILLION IN THE SAME PERIOD OF LAST YEAR]. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 1.0 BILLION IN THE FIRST TWO MONTHS OF 1988-89 [COMPARED WITH STG 2.5 BILLION IN THE SAME PERIOD OF LAST YEAR].

**Page Two**

THE PSBR FOR MAY 1988 IS PROVISIONALLY ESTIMATED AT MINUS STG 0.6 BILLION I.E. A NET REPAYMENT. PRIVATISATION PROCEEDS WERE STG 0.9 BILLION FROM BAA SECOND CALL AND REDEMPTION OF BRITISH TELECOM PREFERENCE SHARES. DOWNWARD REVISION TO LOCAL AUTHORITIES BORROWING FOR APRIL 1988 OF STG 0.1 BILLION. ALSO, EXCEPTIONALLY, SOME MINOR REVISIONS TO PREVIOUS YEARS ARISING FROM CHANGE IN TREATMENT OF PUBLIC CORPORATIONS NOTES AND COIN - IN MOST YEARS STG 0.1 BILLION OR LESS.

**1. May PSBR****Background**

Average of City forecasts for the PSBR in May net repayment of £0.2 billion. Range is from £0.9 billion borrowing to £1.5 billion net repayment. PSBR in May around £½ billion lower than in May 1987.

**Line to take**

PSBR in May was net repayment of £0.6 billion. Privatisation proceeds were £0.9 billion. Excluding privatisation proceeds, PSBR was £0.3 billion (net borrowing).

**2. PSBR, April- May****Background**

PSBR for April-May net repayment of £1.8 billion, compared with borrowing of

£1.9 billion for same period last year. Excluding privatisation proceeds, PSBR for April-May was £1.0 billion, as compared with £2.5 billion in same period last year.

Line to take

Excluding privatisation proceeds, PSBR for April and May was £1.0 billion.

**3. Lower PSBR so far implies FSBR forecast for 1988-89 PSBR too high?**

Background

FSBR forecast 1988-89 PSBR of -£3.2 billion, a similar figure to 1987-88. PSBR for April-May running well below levels of last year (see Q.2).

Line to take

Monthly pattern can be erratic. No conclusions can be drawn from only two month's figures.

**4. Privatisation proceeds**

Background

Privatisation proceeds in May £0.9 billion. Main items second call on BAA (£0.7 billion) and redemption of BT preference shares (£0.2 billion). Privatisation proceeds in May 1987 were £0.5 billion.

Privatisation proceeds for April-May £2.7 billion (April-May 1987 £0.7 billion).

Line to take

Net privatisation proceeds in May were £0.9 billion, mainly reflecting second call on BAA. April-May proceeds higher than last year.

## 5. Consolidated Fund Revenues

### Background

### Consolidated Fund Revenues in April-May

	<u>April-May 1988</u> (£ billion)	<u>April-May 1987</u> (£ billion)	<u>% change</u> <u>April-May 1988 on 1987</u>
Total	20.0	17.3	+ 16
of which:			
Inland Revenue	9.5	8.6	+ 10
Customs & Excise	8.0	7.4	+ 7½
Other	2.5	1.3	+ 100

'Other' revenues include privatisation proceeds when they are transferred into Consolidated Fund - these amounts may differ from total privatisation proceeds given in table 5 of press notice, as proceeds received are usually transferred to Consolidated Fund with a lag.

### Line to take

Consolidated Fund revenues in April and May £20.0 billion. Includes some privatisation proceeds.

## 6. Inland Revenue Receipts

### Background

1988 FSBR forecast 6 per cent increase in IR revenues in 1988-89. Takes into account Budget tax cuts. For PAYE, tax cuts will operate from first pay-day after 14 June. But there is always a delay between tax deductions from pay packets and salary cheques and the payment of tax by employers to IR. Means that main impact of income tax cuts on IR receipts will come in July. Tax deducted in respect of June pay for monthly paid staff and, for 5 weeks from week beginning 30 May to week beginning 27 June for weekly paid staff, is due for payment to IR on 19 July. Detailed estimates of composition of May receipts will be published in July Financial Statistics (table 3.13).

### Line to take

Receipts for April and May £9.5 billion. Effects of Budget income tax cuts not yet appearing in figures.

## 7. Customs and Excise Receipts

### Background

1988 FSBR forecast 7 per cent rise in Customs and Excise receipts in 1988-89. Detailed estimates of composition of May receipts will be published in July Financial Statistics (table 3.14).

### Line to take

Receipts for April and May £8.0 billion.

## 8. Supply Expenditure

### Background

1988 FSBR gives a figure for provision for supply in 1988-89 but not a forecast of outturn because public expenditure Reserve is not allocated to individual components of expenditure (public expenditure total used in PSBR forecast assumes that the Reserve was fully spent).

Supply expenditure in April and May £0.2 billion (1 per cent) lower than in same period last year. April figure lower than 1987, May figure higher than 1987. Figures for individual months can be erratic. A single month's figures of no significance as indicator for year as a whole.

### Line to take

Provisional outturn for supply expenditure in April and May £17.2 billion. Substantial claims - already agreed - on public expenditure Reserve have yet to have full impact on figures - Rover (£650 million), nurses pay (£750 million).

## 9. Central Government Borrowing

### Background

Net repayment of £2.0 billion for CGBR(0) in April and May compares with borrowing of £2.2 billion for April-May, 1987. Privatisation proceeds were £2.7 billion (April-May, 1987 £0.7 billion). Excluding privatisation proceeds, CGBR(0) in April and May around £2 billion lower than in previous year.

### Line to take

CGBR(0) in April and May a net repayment of £2.0 billion.

**10. Local Authorities**

Background

LABR for April and May around £ $\frac{3}{4}$  billion higher than in previous year.

Line to take

LABR (provisionally) borrowing of £0.9 billion for April and May.

**11. Public Corporations**

Background

PCBR for April and May little different from previous year.

Line to take

PCBR (provisionally) a net repayment of £0.6 billion for April and May.

**12. Revisions to last month's estimates**

Line to take

Small revision to LABR for April 1988, reducing borrowing by £0.1 billion. Also some revisions to previous years arising from change in treatment of public corporations' notes and coins (see Q.13).

**13. Public Corporations' Notes and Coin**

Background

'Notes for Editors' in this press notice records minor change in derivation of PSBR. PSBR measured from items financing it. In principle public corporations notes and coin is a financing item but previously no reliable figures available. Newly available figures allow changes in public corporations' holdings of notes and coins to be counted as a financing item in compiling PSBR. Some small revisions to past data as a consequence. Largest revision - to 1980-81 - worth less than £0.2 billion for year; for all other years revisions worth £0.1 billion or less. Consequential revisions for monetary aggregates other than M0 - will be included in Bank of England press notice on 20 June. Change in effect completes change in treatment of public sector bank deposits and liquid assets in PSBR made in 1984 (Details in "Economic Trends", February 1984). Change in treatment of PCs notes and coin not made at that time because necessary data not then available.



			<u>£ million</u>
	<b>Changes since last press notice (1)</b>	<b>PSBR published in this press notice</b>	<b>PSBR as a % of GDP</b>
1976-77	- 40	8264	6.4
1977-78	8	5381	3.6
1978-79	- 61	9174	5.3
1979-80	- 104	9916	4.8
1980-81	- 168	12519	5.3
1981-82	- 11	8621	3.3
1982-83	83	8927	3.1
1983-84	- 41	9706	3.2
1984-85	- 107	10092	3.1
1985-86	- 95	5649	1.6
1986-87	67	3436	0.9
1987-88	- 10	- 3487	- 0.8

(1) Notes and coins change plus other minor changes

Line to take

Change in treatment of public corporations notes and coin in PSBR and monetary aggregates brings treatment of this item into line with that of other public sector liquid assets. Change not made earlier because necessary data previously not available. Revisions to financial year totals are small and of no real significance.

ALLEN RITCHIE (270-5029)  
PSF Division, HM Treasury

From: COLIN MOWL  
15 June 1988

**CHANCELLOR**

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List A

List B (distributed at 11.30am, 16 June)

Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Sedgwick  
Mr Peretz  
Mr Odling-Smee  
Mr Watts  
Mrs Todd  
Mr Ritchie  
Miss Chapman

Chief Secretary  
Financial Secretary  
Paymaster General  
Mr J Anson  
Mr Moore  
Mr Culpin  
Mr Turnbull  
Mrs Brown  
Mrs Butler  
Mr J Gieve

Mr Grice  
Miss O'Mara  
Mr Richardson  
Mr Franklin  
Mrs Ryding  
Mr Cropper  
Mr Tyrrie  
Mr Call  
Mr Calder - IR  
Mr Allen - C and E

**MONTHLY NOTE ON THE PSBR**

I attach a report on the PSBR outturn for May together with the forecast for the period June - August. The May outturn will be published by press notice at 11.30am on Thursday 16 June.

COLIN MOWL

## **PUBLIC SECTOR BORROWING**

### Summary

- The PSBR in May was provisionally a net repayment of £0.6 billion, compared to borrowing of £0.2 billion forecast last month. The CGBR(O) was overforecast by about £1 billion, mainly due to higher than expected Inland Revenue receipts, but this was partially offset by an underforecast on the LABR.
- The PSBR for the first two months of 1988-89 is a net repayment of £1.8 billion compared with a net repayment of £0.5 billion forecast in the Budget profile and borrowing of £1.9 billion in April and May of 1987.
- The PSBR over the next three months is forecast to be a net repayment of £0.4 billion, compared to a net repayment of £0.1 billion forecast in the Budget profile.
- The PSBR excluding privatisation proceeds during the first five months of 1988-89 is forecast to be £2.8 billion, compared to a Budget forecast of £4.5 billion and to £5.0 billion in the first five months of 1987-88. The implications for 1988-89 as a whole are being reviewed in the Treasury's summer economic forecast.

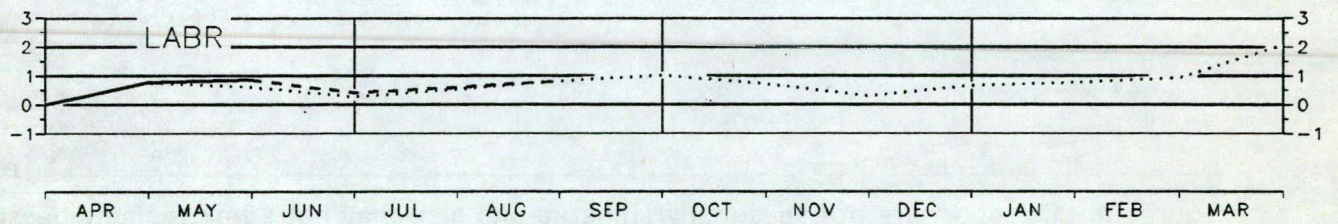
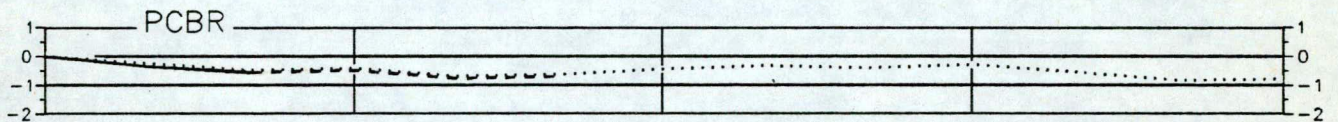
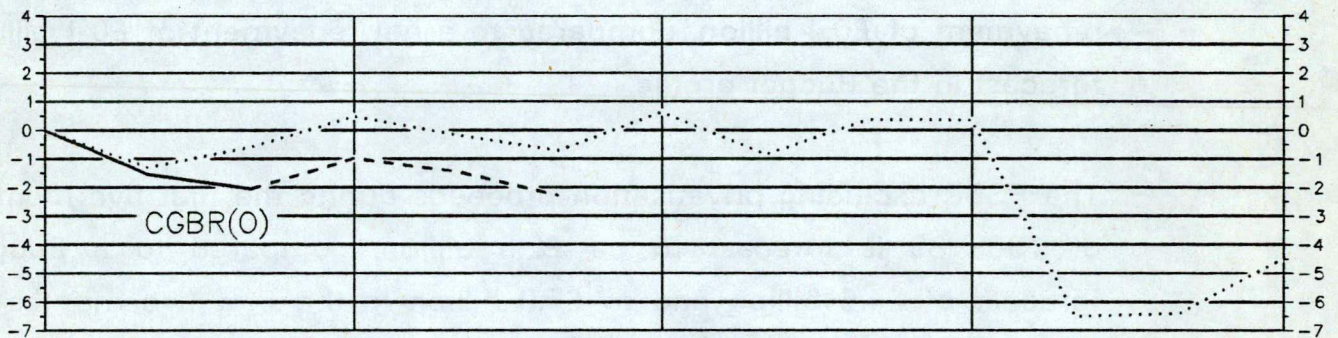
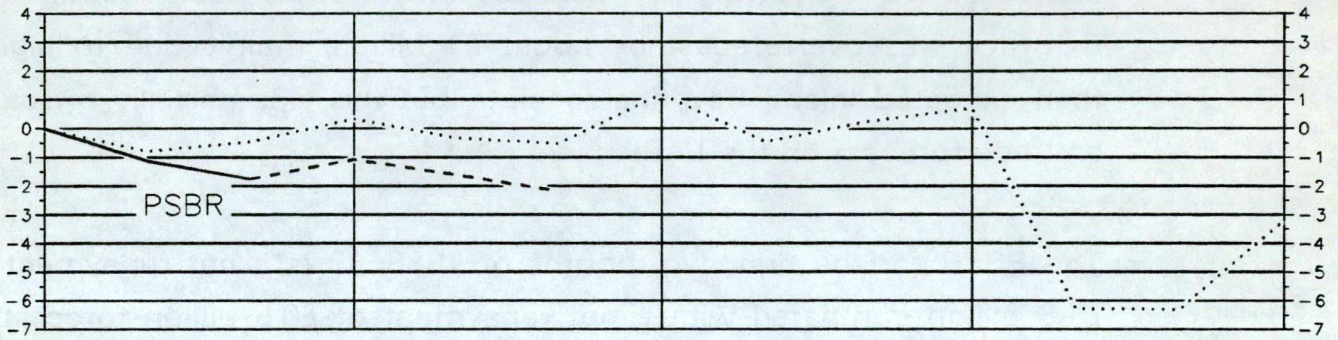
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Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

**Chart 1 : 1988-89: Comparisons with Budget profiles**

£ billion cumulative

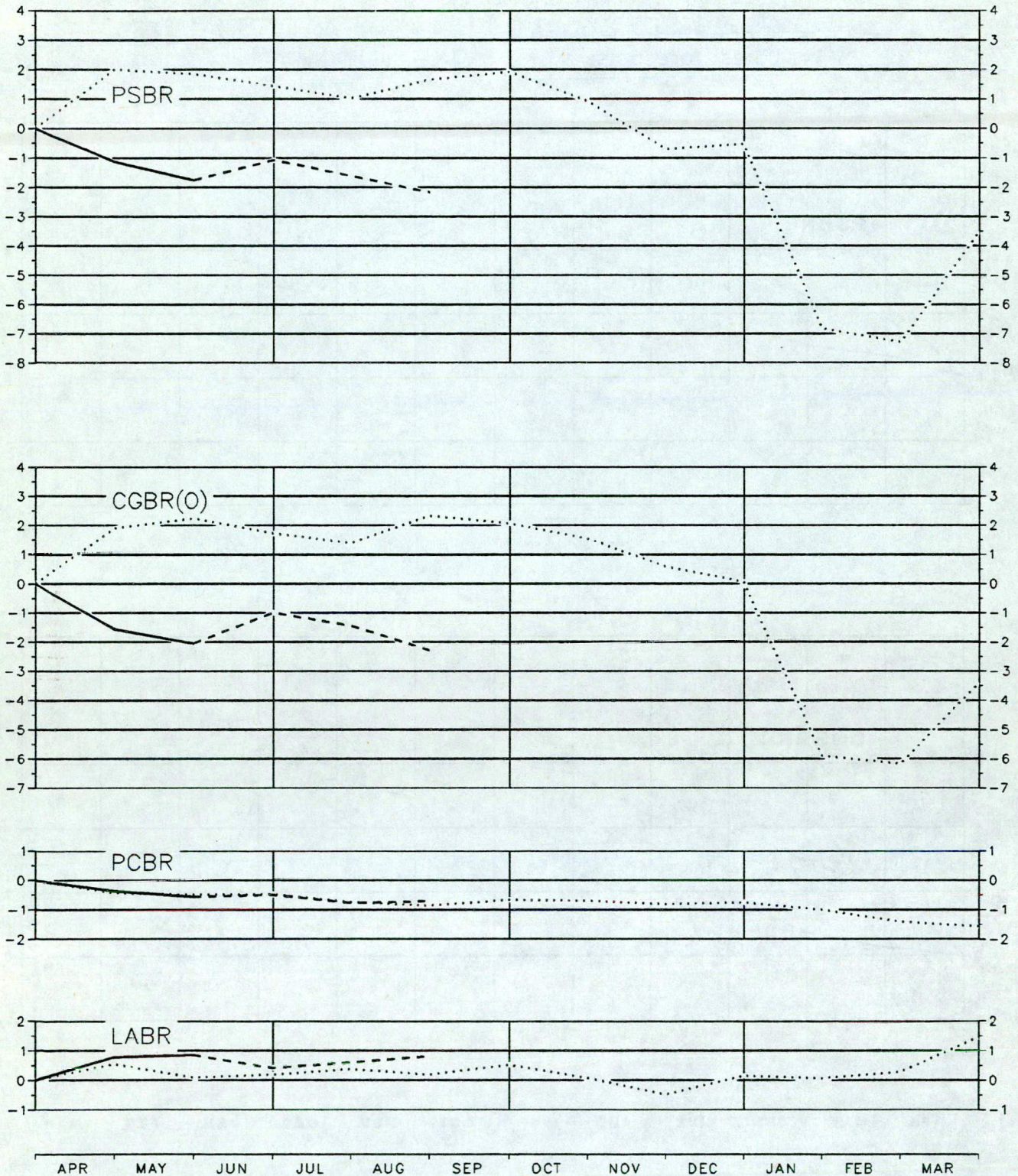
- = Estimated outturn in 1988-89
- ..... = Budget profile
- - - = Latest forecast



**Chart 2: 1988-89: Comparisons with outturns for 1987-88**

£ billion cumulative

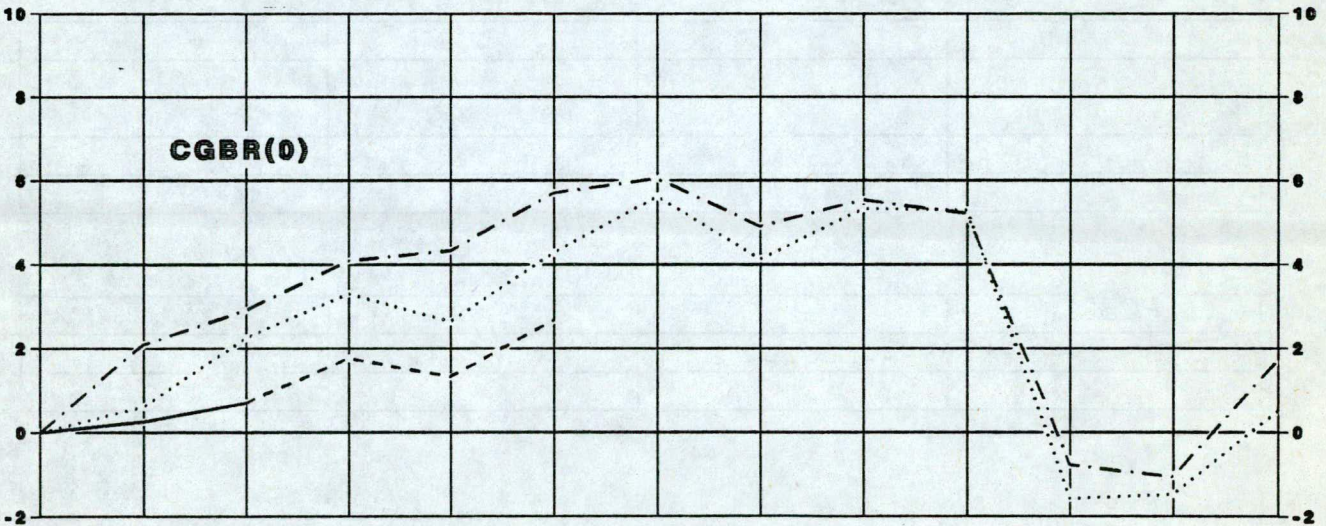
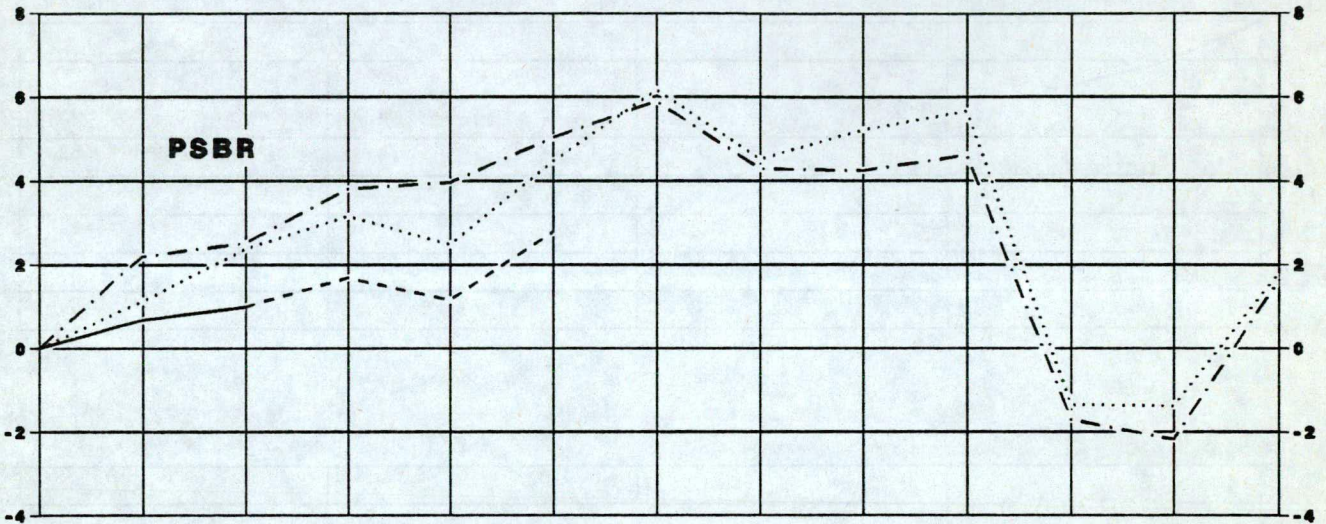
- = Estimated outturn in 1988-89
- ..... = 1987-88 outturn
- - - = Latest forecasts



**Chart 3: Comparisons excluding privatisation proceeds**

£ billion cumulative

- = Estimated outturn in 1988-89
- - = 1987-88 outturn
- ..... = 1988-89 Budget profiles
- . - . = Latest forecasts



APR    MAY    JUN    JUL    AUG    SEP    OCT    NOV    DEC    JAN    FEB    MAR

**Borrowing in May**

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in May is a net repayment of £0.6 billion, compared with last month's forecast of borrowing of £0.2 billion. A large overforecast on the CGBR(O) is partially offset by an underforecast on the LABR as shown in the table below:

**Table 1: May 1988 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.2	0.6	-0.2	-0.2
Outturn	-0.6	-0.5	0.1	-0.2
	-0.8	-1.1	0.2	-

\*made on 18 May

2. The PSBR excluding privatisation proceeds in May is £0.3 billion the same as in May 1987.

3. The outturn on central government's own account was a net repayment of £0.5 billion, compared with the forecast made last month for borrowing of £0.6 billion. The main differences were higher Inland Revenue receipts (by £0.5 billion) mainly higher Income Tax and higher other receipts (by £0.3 billion) mainly due to an increase in the balance held on behalf of the European Community.

4. Privatisation proceeds in May are about £0.9 billion, close to last month's forecast. The proceeds are mainly from the second call on BAA (£0.7 billion) and the redemption of the remaining BT preference shares (0.2 billion).

5. The local authorities' borrowing requirement (LABR) in May is provisionally borrowing of

£0.1 billion compared with a forecast net repayment of £0.2 billion. There were net repayments in May of the previous two years.

6. The Public corporations borrowing requirement in May was provisionally a net repayment of £0.2 billion, as forecast. Public corporations had nearly zero borrowing in May 1987 and made a net repayment of £0.4 billion in May 1986.

**April and May**

(outturn compared with Budget forecast)

**Table 2: April and May 1988 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	-0.5	-0.6	0.6	-0.5
Outturn	-1.8	-2.0	0.9	-0.6
Difference	-1.3	-1.5	0.2	-0.1

7. The PSBR for the first two months of 1988-89 is a net repayment of £1.8 billion compared to a net repayment of £0.5 billion in the Budget profile and borrowing of £1.9 billion in the first two months of 1987-88. Excluding privatisation proceeds the PSBR in April and May is £1.0 billion, compared to borrowing of £2.5 billion in April and May of 1987.

8. In April and May the central government's own account showed cumulatively a net repayment of £2.0 billion, compared with the Budget profile forecast of a net repayment of £0.6 billion. Table 3 shows where differences on individual components have occurred.



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Table 3: CGBR(O) April and May: Differences from Budget profile

	£ billion	percentage difference
<b>Receipts</b>		
Inland Revenue	+0.4	+4.3
Customs and Excise	--	+0.6
NICs	+0.1	+3.0
Privatisation proceeds	-0.1	-3.2
Interest and dividends	+0.2	+19.7
Other receipts	+0.4	+110.2
<b>Total receipts</b>	<b>+1.1</b>	<b>+4.2</b>
<b>Expenditure</b>		
Interest payments	--	+1.2
Departmental expenditure <sup>(1)</sup>	-0.4	-1.8
<b>Total expenditure</b>	<b>-0.4</b>	<b>-1.5</b>
<b>Net effect on CGBR(O)</b>	<b>-1.5</b>	

<sup>(1)</sup> on a cash basis, net of certain receipts and on-lending

9. The main factors reducing borrowing are:

- higher Inland Revenue receipts (by £0.4 billion) mainly due to higher Income Tax receipts. At least part of this probably reflects errors in profiling the monthly pattern of PAYE receipts, which is always difficult at this time of year, when tax is still being paid on the basis of last year's rates and codes. It will not be possible to draw any firm conclusions about the reason for higher income tax receipts until at least August, when July receipts reflecting the Budget tax cuts, will be known.
- lower net debt interest payments reflecting higher interest receipts (by £0.2 billion), with payments as forecast.
- higher other receipts (by £0.4 billion) mainly due to higher balances held on

behalf of the European Community.

- a shortfall on departmental expenditure (measured on a cash basis) of £0.4 billion. This is accounted for by lower expenditure by MOD, IBAP, Home Office, Rating of Government Property Department and ECGD, partially offset by higher net contributions to the EEC.

10. Local authorities borrowed about £0.9 billion in April and May 1988, £0.2 billion more than in the Budget profile and £0.8 billion more than in April and May of 1987.

11. Public Corporations repaid £0.6 billion in April and May 1988, compared to a repayment of £0.5 billion in the Budget profile and in April and May of 1987.

#### June to August

12. The PSBR over the next three months is forecast to be a net repayment of £0.4 billion, compared to a Budget profile of a net repayment of £0.1 billion. One reason that the projected undershoot of the Budget profile is smaller than that recorded in the first two months is the assumed expenditure on Rover. Also some of the build up of funds held on behalf of the EC which has unexpectedly boosted receipts in the first two months is expected to unwind. The central government own account, local authorities and public corporations are all forecast to make net repayments.

13. The CGBR(O) is forecast to give slightly lower borrowing over the next three months compared with the Budget profile. Departmental expenditure is forecast to be just below the Budget profile and central government receipts are forecast to be £0.1 billion above profile over the next three months.

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

- In June the CGBR(O) is forecast to be £1 billion. Customs and Excise receipts are relatively low.
- In July the CGBR(O) is forecast to be a net repayment of nearly £½ billion.

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Receipts of Advanced Corporation Tax will exceed £1¼ billion, but interest payments are very high and interest and dividend receipts are low. The forecast also assumes a net payment to Rover of £650 million, in connection with the sale of the company to British Aerospace. However both the size and timing of the payment is uncertain.

- In August the CGBR(O) is forecast to be a net repayment of £¾ billion. Although Inland Revenue receipts are seasonally low, VAT receipts will be high (as in February, May and November). Proceeds from the second call on BP will yield £2¼ billion.

15. The LABR over the next three months is forecast to be close to zero, compared to forecast borrowing of £0.2 billion in the Budget profile and borrowing of £0.1 billion in June to August of 1987. Local authorities are forecast to make a net repayment in June and to borrow in both July and August.

16. The PCBR over the next three months is forecast to be a net repayment of £0.1 billion as in the Budget profile. Public Corporations are forecast to borrow in June and August and to make a net repayment in July.

### 1988-89

17. The forecast for 1988-89 is now being reviewed. The undershoot for the first two months of the year will be taken into consideration in any revised forecast.

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

Table 4: CGBR(O) April to August: Differences from Budget profile

	£ billion	percentage difference
<b>Receipts</b>		
Inland Revenue	+0.4	+1.6
Customs and Excise	+0.3	+1.6
NICs	-0.1	-0.7
Privatisation proceeds	--	-0.8
Interest and dividends	+0.5	+17.2
Other receipts	+0.1	+10.2
<b>Total receipts</b>	<b>+1.1</b>	<b>+1.8</b>
<b>Expenditure</b>		
Interest payments	+0.1	+0.9
Departmental expenditure <sup>(1)</sup>	-0.5	-0.8
<b>Total expenditure</b>	<b>-0.4</b>	<b>-0.6</b>
<b>Net effect on CGBR(O)</b>	<b>-1.5</b>	

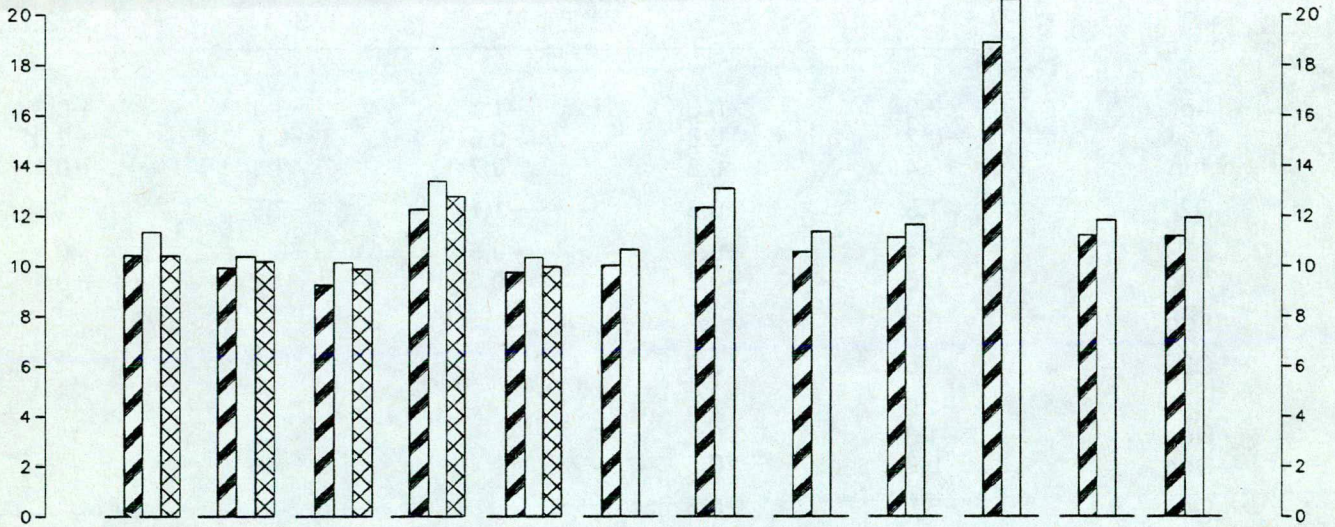
<sup>(1)</sup> on a cash basis, net of certain receipts and on-lending

**Chart 4: Components of central government receipts and expenditure**

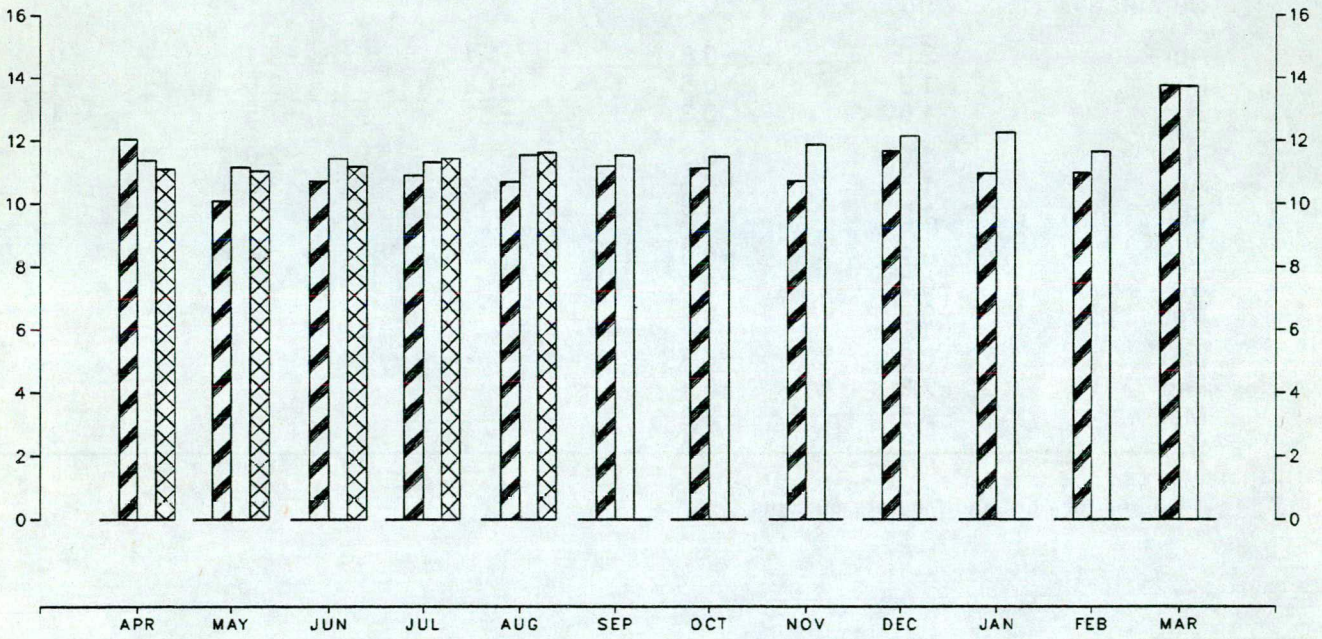
£ billion

-  = 1988-89: Outturns
-  = 1988-89 Budget forecasts
-  = Outturn in 1987-88

**(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS**



**(II) DEPARTMENTAL EXPENDITURE**



**Table 5: PSBR for 1988-89 - comparisons with 1987-88 and 1988 Budget profile**

£ billion

	1987-88		1988-89		Differences from	
	Outturn	Budget profile	Latest update <sup>(1)</sup>	1987-88 outturn	Budget profile	
	1	2	3	3-1	3-2	
Apr	2.0	-0.8	-1.1	-3.1	-0.3	
May	-0.2	0.3	-0.6	-0.5	-1.0	
Jun	-0.4	0.8	0.7	1.1	-0.1	
Q2	1.5	0.3	-1.1	-2.5	-1.4	
Jul	-0.4	-0.7	-0.5	-0.1	0.1	
Aug	0.6	-0.2	-0.6	-1.2	-0.4	
Sep	0.3	1.7				
Q3	0.5	0.9				
Oct	-1.0	-1.6				
Nov	-1.6	0.7				
Dec	0.2	0.5				
Q4	-2.5	-0.5				
Jan	-6.3	-7.0				
Feb	-0.5	-				
Mar	3.8	3.1				
Q1	-3.0	-3.9				
<b>Cumulative</b>						
Apr	2.0	-0.8	-1.1	-3.1	-0.3	
May	1.9	-0.5	-1.8	-3.6	-1.3	
Jun	1.5	0.3	-1.1	-2.5	-1.4	
Jul	1.0	-0.3	-1.6	-2.6	-1.3	
Aug	1.7	-0.5	-2.2	-3.8	-1.7	
Sep	1.9	1.2				
Oct	0.9	-0.5				
Nov	-0.7	0.3				
Dec	-0.5	0.7				
Jan	-6.8	-6.3				
Feb	-7.3	-6.3				
Mar	-3.5	-3.2				

<sup>(1)</sup>Figures for April and May are outturns

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**Table 6: Borrowing requirement Budget profiles 1988-89**  
(Budget profiles in italics for comparisons)

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	-1.1	<i>-0.8</i>	-1.5	<i>-1.3</i>	0.8	<i>0.8</i>	-0.4	<i>-0.2</i>
May	-0.6	<i>0.3</i>	-0.5	<i>0.7</i>	0.1	<i>-0.2</i>	-0.2	<i>-0.2</i>
Jun	0.7	<i>0.8</i>	1.1	<i>1.1</i>	-0.4	<i>-0.3</i>	0.1	<i>0.1</i>
Jul	-0.5	<i>-0.7</i>	-0.4	<i>-0.7</i>	0.2	<i>0.3</i>	-0.3	<i>-0.3</i>
Aug	-0.6	<i>-0.2</i>	-0.8	<i>-0.5</i>	0.2	<i>0.3</i>	0.1	<i>0.1</i>
<b>Cumulative</b>								
Apr	-1.1	<i>-0.8</i>	-1.5	<i>-1.3</i>	0.8	<i>0.8</i>	-0.4	<i>-0.2</i>
May	-1.8	<i>-0.5</i>	-2.0	<i>-0.6</i>	0.9	<i>0.6</i>	-0.6	<i>-0.5</i>
Jun	-1.1	<i>0.3</i>	-1.0	<i>0.5</i>	0.4	<i>0.3</i>	-0.5	<i>-0.4</i>
Jul	-1.6	<i>-0.3</i>	-1.4	<i>-0.2</i>	0.6	<i>0.5</i>	-0.8	<i>-0.7</i>
Aug	-2.2	<i>-0.5</i>	-2.3	<i>-0.7</i>	0.8	<i>0.8</i>	-0.7	<i>-0.6</i>
	Excluding privatisation proceeds		CGBR(O)		LABR		Memo item: privatisation proceeds	
	PSBR							
Apr	0.7	<i>1.1</i>	0.3	<i>0.6</i>	1.8	<i>1.9</i>		
May	0.3	<i>1.3</i>	0.4	<i>1.6</i>	0.9	<i>0.9</i>		
Jun	0.7	<i>0.8</i>	1.1	<i>1.1</i>	-	<i>-</i>		
Jul	-0.5	<i>-0.7</i>	-0.4	<i>-0.7</i>	-	<i>-</i>		
Aug	1.6	<i>2.0</i>	1.3	<i>1.6</i>	2.2	<i>2.2</i>		
<b>Cumulative</b>								
Apr	0.7	<i>1.1</i>	0.3	<i>0.6</i>	1.8	<i>1.9</i>		
May	1.0	<i>2.4</i>	0.7	<i>2.3</i>	2.7	<i>2.8</i>		
Jun	1.7	<i>3.2</i>	1.8	<i>3.3</i>	2.8	<i>2.8</i>		
Jul	1.2	<i>2.5</i>	1.3	<i>2.6</i>	2.8	<i>2.8</i>		
Aug	2.8	<i>4.5</i>	2.7	<i>4.3</i>	5.0	<i>5.0</i>		

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FROM: CHIEF SECRETARY

DATE: 23 June 1988

rec'd 27

CHANCELLOR

cc:

Sir Peter Middleton  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Mr Turnbull  
 Mr MacAuslan  
 Mr McIntyre  
 Mr Burr  
 Mr Corry  
 Mr Dodds  
 Mr Finnegan  
 Mr Kalen  
 Ms Roberts  
 Mr Cropper  
 Mr Tyrie *Mr Call*

*P224*

**1988 PUBLIC EXPENDITURE SURVEY: DEPARTMENT OF EMPLOYMENT**

I have discussed Tim Burr's submission of 16 June about the scope for reducing the employment programme with officials. We both recognise that Employment must be a target for savings in the coming Survey. But we are to some extent constrained by the recently-published White Paper "Training for Employment", and we must avoid giving Norman grounds for complaining that we are fatally undermining the policies in that White Paper. I attach the letter which I have sent to Norman. I think that it is consistent with our objectives for the PES round, and with obtaining the sort of reductions which we need on this programme.

2 There remains a danger that Norman will raise the matter with Number 10. Officials have briefed the Private Office on what we are trying to achieve, and my letter is of course copied to the Prime Minister. That this is an area in which we need to seek savings is something we will want to reinforce when we see the Prime Minister to discuss the Survey prospect next week.

JOHN MAJOR



*MP*



*amp*

CH/EXCHEQUER	
REC.	30 JUN 1988
ACTION	CST
COPIES TO	

*30/6*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

30 June 1988

*✓*

*Dea Moira,*

THE 1988 PUBLIC EXPENDITURE SURVEY

The Prime Minister discussed yesterday with the Chancellor and the Chief Secretary the paper attached to your letter of 28 June on the prospects for the 1988 Public Expenditure Survey.

In discussion, it was noted that a very difficult round was in prospect. It was agreed that the remit to be set by the Cabinet at its 14 July discussion should be a tight one, but equally one that could be achieved in the subsequent negotiations. It was also agreed that a similar formula should be adopted as used in 1987, stressing both the need to keep as close as possible to the existing planning totals and ensuring a steady decline in the ratio of public expenditure to GDP. It was important, however, that the precise words should point to a further decline in the GDP ratio from the out-turn figure for 1988-89 and should not be tied to the figures set out in the 1988 Public Expenditure White Paper.

The Chancellor and the Chief Secretary agreed to let the Prime Minister see, during the course of next week, drafts of the papers they would be putting to Cabinet both on the Public Expenditure and overall economic prospects.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

*Yours  
Paul*

PAUL GRAY

Miss Moira Wallace  
H.M. Treasury

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*MW*  
*1 ~~copy~~ copy with yr. point.*  
*The argument shd be a combined one: the industry wd not be practising for all 6 do No*  
*wd make a bid for higher prices.*

FROM: S M A JAMES

DATE: 30 June 1988

HEADS OF EXPENDITURE DIVISIONS

- cc: PS/Chancellor
- PS/CST
- HEGs
- Mr Turnbull
- Mr Sedgwick
- Mr A White
- Mrs R J Butler
- Mr Waller
- Mr Hibberd
- Miss Walker
- Mr Stevens

*Ch/ You might like to look at the highlighted para<sup>at flap</sup> behind, proposed as a standard attaching para on construction bids for CST's letters to Messrs Kird, Moore, Baker etc. I would have thought argument is that construction industry simply will not be able to do the work that would be generated.*

**1988 SURVEY AGENDA LETTERS: BIDS FOR NEW CONSTRUCTION**

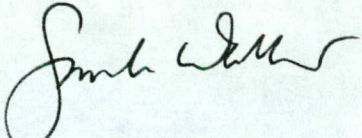
1. A number of bids in this year's Survey are for increased construction spending. The construction industry is now very stretched and as a result prices are rising faster than inflation for the first time for a number of years. There is therefore a good argument for asking departments to scale down their bids for new construction in order to avoid adding to the pressures in this sector.

2. I attach a draft paragraph which you may wish to include - or extract material from - in your draft agenda letters for the Chief Secretary, and a longer passage which we expect to include in a general brief on construction bids for the bilaterals. You may wish to draw on any points in this which are particularly relevant to your programmes in bilateral briefing, or to refer to the general brief in your departmental briefs.

3. This material <sup>draws</sup> both on a recent NEDO report on the Construction industry and analyses prepared by EA. The figure of total bids for new construction is the result of the trawl initiated by my minute of 16 June to Expenditure Principals and may be subject to changes as figures are firmed up. We will circulate any amendments in due course.

*and that we should not play the rising prices argument so hard [they will simply respond: yes, that's why we need the £] now.*

4. If there are any queries about the material in the paragraph or what would be appropriate to include for your department, please get in touch with Sarah Walker or me.



S M A JAMES

DRAFT PARAGRAPH FOR AGENDA LETTER

1. As you know from my Cabinet paper, I am concerned about the additional bids that have been put forward for new construction including the substantial bid you have submitted for [ ]. The construction industry is already stretched, and firms are increasingly reporting capacity constraints. This pressure is already affecting construction prices. After a number of years in which they rose more slowly than general inflation, they now appear to be rising faster. The proportion of firms expecting tender prices to rise is now up to 70 per cent. There is a real risk that, if we accepted all these bids, the extra demand would to a large extent simply ~~increase inflation~~ <sup>raise prices</sup> in the industry rather than yielding higher output.

Passage for construction brief

2. The Building Employers Confederation (BEC) Survey in the spring reported that 70 per cent of firms are operating at full capacity compared with 47 per cent a year earlier. Pressure on capacity is likely to continue as the current investment boom proceeds. Construction output grew by 8.5% in 1987 and is likely to expand by up to 10 per cent this year. Orders received in the latter part of 1987 were 7 per cent up in London and the South East on the previous year. Over 70 per cent of firms expect tender prices to rise. The inflationary pressure is increased by emerging labour shortages in the industry and therefore pressure on earnings; manual earnings in the construction industry in London and the South East rose by 8½ per cent between 1986 and 1987. The picture may be even worse than the BEC Survey evidence reveals as it does not capture activity in the black economy.

3. Bids for construction spending submitted in this year's Survey total some £950m in 1989-90, £1100m in 1990-91 and £1200m in 1991-92. These would, if conceded, represent substantial increases in baseline provision; ([x] per cent on the baseline in 1989-90) and on outturn in past years ([y] per cent

increase on spending in 1987-88). They would have the effect of increasing total demand in the construction industry\* by some [2.3] per cent in 1989-90 and [2.7] per cent in 1990-91, and so of inflating the rate of growth of demand in the industry over the Survey period by [1/3].

*(confirmation of figures to follow)*

---

\* Construction output figures from BEC forecasts of total output in cash using most recent GDP deflators. (BEC figures in 1980 prices).

SECRET

*PHV*

FROM: J S HIBBERD  
DATE: 4 JULY 1988

PRINCIPAL PRIVATE SECRETARY

cc : Chief Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Anson  
Dame A Mueller  
Mr Phillips  
Mr Scholar  
Mr Monck  
Mr C W Kelly  
Mr Odling-Smee  
Miss Peirson  
Mr Peretz  
Mr Sedgwick  
Mr Turnbull  
Mr MacAuslan  
Mr Mowl  
Mr Allum  
Mr Call  
Mr Cropper  
Mr Tyrie

ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE

Please replace Table 4 of my minute of 1 July with the attached.

*Jim Hibberd*

J S HIBBERD

*(original page,  
rev one  
substituted)*

TABLE 4 : DEPARTMENTS RECEIVING ECONOMIC ASSUMPTIONS

<u>Unemployment</u>	DHSS, DEmp, Northern Ireland Office (NIO), GAD.
<u>RPI (including and excluding housing costs)</u>	DHSS, ECGD, NIO, GAD
<u>GDP deflator</u>	DHSS, GAD
<u>Average earnings</u>	DHSS, GAD
<u>Interest Rates</u>	DTI, ECGD, NIO

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FROM: A C S ALLAN

DATE: 5 July 1988

SIR T BURNS

cc PS/Chief Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Odling-Smee  
 Mr Sedgwick  
 Mr Turnbull  
 Mr Gieve  
 Mr Hibberd  
 Mr MacAuslan  
 Mr Call

*56 Spini - agreed*

*MacAuslan*

**ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE**

The Chancellor has been thinking further about one of the assumptions agreed at this morning's meeting: 5½ per cent for the GDP deflator in 1988-89.

2. On reflection, the Chancellor sees two potential disadvantages with this assumption, as compared to 5 per cent:

(i) It would complicate the story on the upward revision to the RPI assumption for September, where our line will be that a major part of the increase is the result of higher mortgage interest payments. (Why is the GDP deflator going up by more than the RPI excluding mortgage interest payments? Is this largely construction prices?).

(ii) Is there not a danger that we might in the end come out with a figure for 1988-89 which rounds



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to 5 per cent? The June forecast was for an increase of 5.7 per cent, but, as Mr Sedgwick pointed out at the meeting, it is possible that that could be revised down if rebasing produces higher real growth. Given the margin of error on the forecast, there must be a non-negligible chance that the eventual number will round to 5 per cent.

3. The Chancellor would be grateful for your advice on these points, taking account of any comments GE may have on the impact on the public expenditure round (the Chancellor is not minded to change the agreed  $4\frac{1}{2}$  per cent assumption for 1989/90).

*ACSA*

**A C S ALLAN**

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FROM: SIR T BURNS  
DATE: 6 JULY 1988

CHANCELLOR

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Odling-Smee  
Mr Sedgwick  
Mr Turnbull  
Mr A Allan  
Mr Gieve  
Mr Hibberd  
Mr MacAuslan  
Mr Call

*Ch*  
*Maybe state with 5 1/2%?*  
*OK* *[Signature]*

**ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE**

You asked for advice about whether to use 5 per cent for the GDP deflator assumption for 1988-89.

2. I attach a note from Mr Hibberd showing that after consideration they do not expect rebasing to reduce the growth of the GDP deflator.

3. The forecast shows the GDP deflator rising faster than the RPI excluding mortgage rates because of the projected behaviour of prices not in the RPI - particularly construction prices. If necessary this point could be used in discussion - there is a widespread perception of the rapid growth of construction prices.

4. I do not feel strongly about the proposal to use a figure of 5 per cent. There is still a considerable margin of error surrounding the forecast. But I should report that the Public Expenditure side of the Treasury have a clear preference for 5½ per cent. Although they share the objective of not wanting there to be a risk of revising it back down they would prefer a figure that would avoid a second significant revision in October.



T BURNS

ENC

FROM: J S HIBBERD  
DATE: 6 JULY 1988

SIR TERENCE BURNS

cc : Mr Anson  
Mr Odling-Smee  
Mr Sedgwick  
Mr Turnbull

**ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE: THE GDP DEFLATOR**

The question arose at yesterday's meeting with the Chancellor on economic assumptions about the effect of rebasing on the GDP deflator. The Chancellor has subsequently indicated that, if this effect points to a lower GDP deflator for 1988-89, he would prefer an economic assumption of 5 per cent for this year, rather than the 5½ per cent we initially agreed.

2. We would expect rebasing by itself to reduce the volume growth of GDP(E), and increase the GDP deflator. This is because, between base years, people will substitute towards cheaper goods. Come rebasing, therefore, the most rapidly growing volume components will have lower relative prices in the new base year. That did indeed happen to components of domestic demand in the 1975 and 1980 rebasings.

3. However, total GDP(E) volume growth rose in both those rebasings because of developments in net oil exports. Between the 1970 and 1975 rebasing and the 1975 and 1980 rebasing, UK oil production rose (especially between 1975 and 1980). This coincided with two very large oil price increases between the new base years, so that the weight given to net oil export volumes increased. This effect was more than sufficient to outweigh the rebasing effects on domestic demand. The volume growth of GDP(E) was thus pushed up by rebasing rather than down, and the rise in the GDP deflator was revised down pari passu. The changes to the GDP and consumer expenditure deflators due to rebasing are illustrated below:

	Deflators (average annual per cent change)			
	1975 Rebasing		1980 Rebasing	
	1973-1977 (1970 base)	1973-1977 (1975 base)	1978-1982 (1975 base)	1978-1982 (1980 base)
GDP deflator	17.8	17.4	12.4	12.1
Consumers' expenditure deflator	17.4	17.9	11.8	12.3

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4. What is likely to happen when the national accounts are rebased on 1985 prices? CSO will not have an idea about 1987 and earlier years for a little while. But I have had a cursory look at oil developments between 1980 and 1988<sup>5</sup> to see whether there is likely to be a comparable net export effect in the forthcoming rebasing. The numbers are set out below.

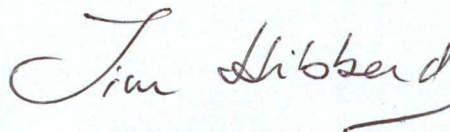
Percentage change between 1980 and 1985

Oil exports (mn tonnes)	106
Oil imports ( - " - )	- 40
Sterling oil price	41
UK manufactured output price	36

5. Net oil exports again increased substantially between the two years. It is more difficult to get a handle on relative price movements. But the sterling oil price rose only slightly faster than UK manufactured output prices over this period. (The latter price, however, may be a poor guide to overall price movements.) My best guess is that there will be very little difference in the relative price of oil in this rebasing, and there is unlikely to be much upward rebasing effect on GDP volumes from net oil exports this time round.

6. In the absence of any other substantial relative price movements, therefore, this year's rebasing is more likely to increase the GDP deflator. (However, revisions to data could swamp any rebasing effect, in either direction.) Other things being equal, this goes against the Chancellor's wish for an economic assumption of 5 per cent for the GDP deflator in 1988-89 rather than the 5½ per cent agreed initially.

7. As regards the Chancellor's other query, the GDP deflator rises faster in 1988-89 than the RPI (excluding mortgage interest payments) mainly because of faster rising investment and public authorities consumption deflators. The consumer expenditure deflator and the RPI (excluding MIPS) rise broadly in line.



J S HIBBERD