

PO-CH/NL/0841

PART A



Chel  
Lawson

PART A

**SECRET**

(Circulate under cover and  
notify REGISTRY of movement)



PO -CH /NI./0121  
0841



PART A

19

Begin: 21/12/84

DD: 25 years

Ends: 25/10/85

5/9/95

TREASURY PLANNING:  
FORECASTS, STOCKTAKING  
AND THE FORWARD LOOK

NL/0121  
0841

PO -CH

PART A









*Can be  
Bad and too late,  
a thought review of  
the 13 is essential,  
can be done  
expedited.*

Board Room  
H M Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE

From: J R LESTER  
Date: 21 December 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir Peter Middleton  
Mr Battishill  
Mr Monger  
Mr Griffiths  
PS/Inland Revenue

*You led the Treasury contribution  
before Christmas. Revenue contribution  
on separate slip below  
MOM 28/12*

**STOCKTAKING NOTE: MATTERS FOR MINISTERIAL ATTENTION**

I attach a stocktaking note on major issues involving Customs and Excise which will probably require Ministerial attention before the Summer Recess (Annex A). Six items, dropped from our previous note, are at Annex B.

2. The note covers only items on which Customs and Excise are in the lead or have a joint interest (as in the case of the Keith Committee Report). It does not include most of our Budget and Finance Bill starters for 1985, which are covered by a single omnibus item in the official Treasury return.

J R LESTER  
PRIVATE SECRETARY

Internal circulation:	Mr Hawken	Mr Bryars	Mr Harris
	Mr Knox	Mrs Strachan	Mr Howard
	Mr Godfrey	Mr Jefferson Smith	Mr Wilmott
		Mr Weston	Mr Battle



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
PERSONNEL AND ADMINISTRATION				
1. Value for money targets	Preparations in hand for key targets to be set for 1985-86	Meeting with Sir Robin Ibbs early in the New Year	MST Mr Fraser	Efficiency Unit
2. Board's Management Plan	Draft Plan for 1985-86, to be put to MST in January	Approval of Plan	MST Mrs Strachan	Treasury
3. Supply Estimates and PES	Consideration to be given to 1985-86 supply estimates and, later, to PES bid for period to 1988-89	Decisions on outstanding points after discussions between C&E and official Treasury	Chief Secretary MST Mrs Strachan	Treasury
4. Enquiries from the Public	Departmental Efficiency Scrutiny	Approval of Draft Report	MST/ Mr Wheway	MPO
5. Management of Accommodation	Efficiency Scrutiny (part of Multi-Departmental Review)	Approval of Draft Report	MST/ Mr Morley	MPO
6. Burdens of Business	Efficiency Scrutiny (part of Multi-Departmental Review)	Approval of Draft Report	MST/ Mr Parker	MPO
7. Identifying Internal talent	EOM Sub-Group on Management Development created Central Action Plan to be drawn up in first 3 months of 1985. Subsequently for discussion with TUS centrally and departmentally	Approval of Action Plan	MST Mr Harris	MPO



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
ENFORCEMENT POWERS				
8. Keith Committee Report (Enforcement Powers of Revenue Departments)				
Volumes 1 and 2 (VAT)	Preparations for implementing legislation on the accepted VAT recommendations in the 1985 Finance Bill and in subordinate legislation are in progress. A consultative document was published on 21 November 1984. It invites comments on draft clauses by 7 January 1985.	Consideration of comments of the consultative document and final approval of clauses for the Finance Bill and amendments to subordinate legislation.	Chancellor Mr Howard	Inland Revenue
Volume 4 (Customs and Excise duties and prohibitions)	Report due in late December	Decisions to accept/reject each recommendation and update of legislation in Finance Bill 1985/86 or 1986/87.	MST Mr Godfrey	
VAT				
9. Possible infraction proceedings against UK zero rates which do not benefit the final consumer	Commission will be deciding whether to take proceedings in European Court	Responding to concerns by MPs and UK trade interests	MST Mr Jefferson Smith	Treasury, FCO, Cabinet Office, Environment, Trade and Industry, MAFF
10. Bad Debt Relief: possible extension of the scope of the relief for VAT	Proposed as Budget starter	Ministerial approval has been given	MST Mr Howard	Treasury Trade and Industry



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11. Revalorisation of registration threshold. Commission alleges UK threshold increased by more than is allowed under EC Sixth Directive. Possible infraction proceedings.	UK views have been put to the Commission. Their response (if any) is awaited.	Decisions required in the light of any EC response	MST Mr Howard	Treasury FCO Cabinet Office
12. Credit cards	In suspense - but Commission may challenge present UK treatment	Consider response if Commission challenge us	MST Mr Jefferson Smith	Treasury
13. Relief for charities	Political campaign reviving	Defend refusal to give relief	Chancellor MST Mr Jefferson Smith	Treasury



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14. Draft 13th Directive on refunds of tax to taxable persons not established in the Community.	Consideration of draft by Coreper. Problems with extent of items to be considered non-refundable. Stalemate.	Minor UK legislation (Statutory Regulations) Inform House	MST Mr Howard	Treasury Inland Revenue FCO
15. Possible infraction proceedings on exemption for supply of spectacles	Commission will be considering proceedings in European Court	Consider response (which could involve taxing spectacles)	MST Mr Jefferson Smith	Treasury FCO, Cabinet Office, DHSS
16. Overseas travel agents	Avoidance problem identified (not yet reported to Ministers)	Decision whether to legislate (statutory instrument)	MST Mr Jefferson Smith	
17. European Court judgment on direct selling	Awaiting decision, likely to be adverse	Decision on any consequential UK action	MST Mr Jefferson Smith	Treasury
18. Repayment of tax to those in business overseas: possible extension of refunds for tax paid in respect of imports.	Drafting amendment to S.23(1) of the VAT Act 1983 and Regulations	Minor UK legislation (Amendment to S.23(1) of the VAT Act 1983 and Regulations) Inform House	MST Mr Howard	Treasury FCO Cabinet Office
EXCISE DUTIES				
19. Matches and mechanical lighter duties; possible abolition.	Consultation with trade interests completed. A submission has been made to the Chancellor	Decision whether to abolish duties in Budget 1985	MST Mr McGuigan	Treasury DTI
20. On-course betting: rate of duty	MST has given undertaking that rate will be reviewed before next Budget	Decision for Budget 1985	MST Mr Jenkins	Treasury



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21. Alcoholic liquor duties: legislative changes on several minor practical problems	MST has authorised extra-statutory concession on distillation of certain "waste" beer. Other problems arising from new practical developments under review	Decision for Finance Bill 1985	MST Mr Whitmore	MAFF
22. Oil: Warehousing Review: tentative proposal is that most distribution warehouses be debonded and instead oil duty should be deferred (saving up to 100 staff)	MST has authorised discussions with trade bodies of a scheme with very small net effects: paper to be submitted early in New Year	Decision needed for authority to proceed with necessary arrangements to introduce changeover at beginning of 1986 - using existing order-making powers	MST Mr McGuigan	Treasury Energy
CUSTOMS				
23. Customs: Errors in entries	(Rayner scrutiny report issued January 1983) Ministers' decisions in principle promulgated in October 1983	Approval of action plan (already submitted). Possible need to follow-up with Efficiency Unit and other government departments (as regards revised arrangements for checking)	MST Mr Godfrey	MPO Trade and Industry Environment MAFF



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
24. Customs attendance	(Rayner scrutiny report issued 1981). Ministers' decisions in principal promulgated in October 1983. Decision on charges for attendance taken July 1984.	Approval of action plan. Possible need to follow-up with Efficiency Unit. Further trade representa- tions still threatened.	MST Mr Godfrey	No 10 MPO TRADE AND INDUSTRY MAFF TRANSPORT SCOTTISH OFFICE WELSH OFFICE NIO



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
25. Police & Criminal Evidence Act	Received Royal Assent	Treasury Order applying the Act to C&E will be required in late 1985	CST MST Mr Godfrey	Home Office LCD DPP
26. Temporary Use Regulations 3/84 and 2364/84	Implementing to introduce Community carnet (temporary importation) procedures under the Regulations	SI to be made by Commissioners under EC Act 1972 to come into effect on 1 July 1985	MST Mr Godfrey	
27. Community Integrated Tariff (TARIC II)	Agreement near on structure, content and coding work should begin first half of 1985 on necessary EC legislation	Decision will be necessary on Regulation(s) giving effect to TARIC II which is likely to be synchronised with planned implementation of the Harmonised System on 1 January 1987	MST Mr Godfrey	Trade and Industry MAFF FCO Cabinet Office
28. Strategy for developing and replacing the import and export entry processing system (including direct keying)	A preliminary note to MST was submitted in October 1984. A further submission will be made in March/April 1985	Decision will be necessary by early May 1985 on options for the next 7-12 years and the investment involved	MST CST Mr Godfrey	Treasury (incl CCTA)
29. Withdrawal of VAT postponed accounting	Implementation of 1984 Budget decision took effect on 1 November 1984	Further MP cases and trade representations may be expected. SITPRO are putting together a case against guarantees.	Chancellor MST CST Mr Jefferson Smith Mr Godfrey	Treasury Transport
30. Land Boundary Regulations	Preliminary drafting	Approval of terms of draft legislation	MST Mr Godfrey	NIO DANI Transport



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
31. Dissemination of overseas trade statistics to the private sector (Bill of Entry Service)	A proposal is being pursued to invite an experienced marketing agent to take over from the present internal service with a view to developing the system to an extent that is not possible in-house. Significant staff savings in 1986/7 are involved.	To realise the staff savings in 1986/7 it is planned to effect the initial hand-over early in 1986. Tenders will have to be invited by about the middle of 1985 and this may require Ministerial approval.	MST Mr Godfrey	CSO DTI DTP MAFF MPO
32. Tristars case: possible infraction proceedings	The UK replied to the Commission's letter on 21 May 1984, contesting their interpretation of the end-use regime which would require the UK to account for customs duty on Tristar aircraft imported by BA and later acquired by the MoD. <i>Further action by the Commission awaited: Article 169 letter considered imminent.</i>	Dependent on whether infraction proceedings are instituted	MST Mr Hawken Mr Godfrey	MoD FCO Cabinet Office Treasury DTI
33. Waiver of import duties on defence equipment: possible infraction proceedings	The UK received a letter from the Commission on 1 October 1984 challenging the UK view that Art 223 of the Treaty allows us to waive import duties on defence equipment. The challenge initially relates only to items suitable for both military and civilian purposes, but with the clear implication that it may be extended to all defence equipment. The UK replied on 3 December defending our current practice. Further developments are awaited.	Dependent on future actions of the Commission	MoD	FCO Cabinet Office Treasury DTI



<u>Subject</u>	<u>State of Play</u>	<u>Ministers' Involvement</u>	<u>Ministers/Officials in lead</u>	<u>Other Interested Departments</u>
34. Ministerial working group on the misuse of drugs	Interim report to H Committee due in New Year. Full report to follow.	Assessment of the Customs & Excise effort on drugs and relationship with Police may lead to difficulties and Ministerial involvement may be sought. Possible Ministerial attendance at Committee meetings.	MST Mr Godfrey	Home Office
35. Home Affairs Select Committee	Inquiry into drug abuse	Possible Ministerial attendance. C&E effort on drugs and relationship with Police may be considered and Ministers may become involved.	MST Mr Godfrey	Home Office
36. Travellers ("Duty Free") Allowances	It is intended to launch a review of the existing UK legislation which would require the making of new Orders under the GRA 1979	Depending on the nature of changes under the new legislation might require Affirmative Resolution	MST Mr Godfrey	
37. European Court case 278/82 on Duty Free Sales	In its judgement of 14 February 84 the Court made observations which appear to render invalid the present entitlement of non-landing excursion passengers on cross Channel ferries to allowances in respect of goods purchased in ship-board duty free shops	Situation reported to Ministers and for approval of action plan. If it is decided to withdraw the entitlement, amendment of the relevant SI (The Customs Duty (Personal Reliefs) (No 1) Order 1968) may be necessary which would probably require Affirmative Resolution.	MST Mr Hawken Mr Godfrey	Cabinet Office FCO DTI MAFF Transport



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ITEMS DROPPED FROM PREVIOUS NOTE

ANNEX B

SUBJECT	REASON FOR DROPPING
1. Manpower	Revised target of 25,445 agreed for 1985-86
2. Scrutiny in VAT Central Unit	Action plan approved. Follow-up action to be taken.
3. Consumer credit duty	Chancellor has agreed that this is inappropriate at this time. [Meeting on 21 November 1984]
4. Customs: Simplification of intra-Community trade	Decision to proceed with the implementation of the SAD taken by the Council of Ministers in December 1984.
5. International Convention on Harmonised Commodity Description and coding system	Ministerial approval has been given for the UK to sign the Convention subject to later rectification.
6. Freezones: secondary legislation	All action completed.



CONFIDENTIAL



1. Photo  
2. copy

FROM: MISS O'MARA  
DATE: 7 January 1985

PS/CUSTOMS AND EXCISE

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Mr Battishill  
Mr Monger  
Mr Griffiths  
PS/IR

**STOCKTAKING NOTE: MATTERS FOR MINISTERIAL ATTENTION**

The Chancellor has seen the material attached to your minute of 21 December.

2. He has commented that given the public concern over the payment of VAT on the Band Aid record, a thorough review of Item 13 (Relief for Charities) is essential, covering both the substance and presentation.

*mom*

MISS M O'MARA



b1f 2/4 pr.



## CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 7029

CH/EXCHEQUER	
REC.	12 MAR 1985
ACTION	Mr BATTISHELL
COPIES TO	CST, EST, MST, EST
	Sir P. Middleton
	Sir T. Burns
	Mr Bailey

✓  
13/3COPIES TO

ALL UNDER-SEC'S,

MR CROPPER, PS/C&amp;E, PS/IR, PS/DNS, PS/HMSO, 12 March, 1985

MR LORD, PS/COT, PS/GAD, PS/CSO, PS/RFS, PS/CCTA

MR H. DANLEY,

Dear Private Secretary

Mr LITTLE

Mr LEMP

Mr UNWIN

Mr MONCK

Mr CULPIN

## FORWARD LOOK

I should be grateful for details of business likely to come forward for Ministerial consideration between mid-April and early August.

2. Please include both Economic and Home and Social Affairs business. The return should cover Cabinet and the following Cabinet Committees: ES, EX and H; Sub-Committees of ES - E(A), E(CP), E(DL), E(LA), E(LF), E(NI) and E(PSP); and also MISCS 66, 95, 104, 108, 109 and 112.

3. For each item we should like to know -

- i. the brief title, with a few words to indicate the main issues;
- ii. the relevant Committee, Sub-Committee or Group (or Cabinet);
- iii. when it is likely that discussion can take place (taking account of the 'seven day' rule);
- iv. which other Departments have a major interest, especially for joint papers;
- v. the references of previous Committee or Cabinet discussions, where appropriate;
- vi. any special considerations affecting timing or other relevant information.

4. Please include only those items likely to require collective discussion during the period: items which can be cleared in correspondence or which are unlikely to materialise should not be included. Experience suggests that these criteria need to be applied robustly.

5. Please send a copy of your reply separately to Simon Hickson here. (Phone 233-7665) Replies should reach us by close of play on Thursday 4 April at the latest. If your Department does not expect to have any business, please send a nil return.

Yours sincerely

A J WIGGINS



Private Secretaries to -

Lord President of the Council (copy)  
Lord Chancellor  
Secretary of State for Foreign and Commonwealth Affairs  
Secretary of State for the Home Department  
Chancellor of the Exchequer  
Secretary of State for Education and Science  
Secretary of State for Energy  
Secretary of State for Defence  
Secretary of State for Scotland  
Secretary of State for Wales  
Secretary of State for the Environment  
Lord Privy Seal  
Secretary of State for Social Services  
Secretary of State for Trade and Industry  
Secretary of State for Employment  
Minister of Agriculture, Fisheries and Food  
Secretary of State for Transport  
Secretary of State for Northern Ireland  
Chancellor of the Duchy of Lancaster  
Minister without Portfolio  
Paymaster General  
Attorney General  
Lord Advocate



CONFIDENTIAL

a Mr bathwell ✓

AG

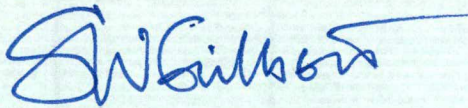
FROM: S W GILBERT DNS  
DATE: 15 MARCH 1985

cc Mr Patterson  
self

PS/CHANCELLOR

**FORWARD LOOK**

1. You sent me a copy of Mr Wiggins' letter of 12 March 1985.
2. Nil return from National Savings.



S W GILBERT





S. WGBB

L Committee

Coal Industry Bill

When?

Walker 28 March.

Not tomorrow

Hope for 17 April

FST.



Phil

Forward look hasn't yet  
~~been~~ come back when it  
does, can you allow

Item 1: to read "Public  
Expenditure Survey" rather  
than "White Paper"

Item 12: Interested depts are  
only Revenue & DHSS hdr

DTI & D/En or En - pl. delete  
[Both from Alan Bailey]

You'll also want to get  
comments from Mike Colverson  
& ~~Tony Knapp (2541 7221)~~  
but could you check Richard  
Pratt's content.

Phil,  
M



CONFIDENTIAL

FROM: K F MURPHY  
DATE: 3 APRIL 1985

MISS O'MARA

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Bailey  
Mr Littler  
Mr Unwin  
Mr Byatt  
Mr Kemp  
Mr Monck  
Mr Anson  
Mr Cassell  
Mr Folger  
Mr Culpin  
Mr Pratt  
Mr Cropper  
Mr Lord  
Mr Davies  
PS/Customs & Excise  
PS/Inland Revenue

*C*  
Content for his to issue?  
There is no mention of  
the building society  
legislation as its hoped  
to clear that in comparison

*mon*  
3/4

*JK*

#### CABINET OFFICE FORWARD LOOK

In his letter of 12 March, Mr Wiggins of the Cabinet Office asked for details of business likely to come forward for collective Ministerial consideration between mid-April and early August.

2. I attach a draft reply, which covers all the Chancellor's Departments. CSO will reply separately.

*KFM*

K F MURPHY



✓ 9/4

Pl type  
for my sig'

Draft letter from Miss O'Mara

To: Simon Hickson  
Cabinet Office  
Whitehall  
LONDON SW1

**FORWARD LOOK**

I enclose our return showing details of business likely to come forward between mid-April and early August. <sup>It</sup> This ~~return~~ covers the Treasury and all <sup>the</sup> ~~other~~ <sup>other</sup> Chancellor's departments.

~~[MOM]~~

Rwo



TITLE/MAIN ISSUE	CABINET/ COMMITTEE/ SUB-COMMITTEE	DATE LIKELY TO GO FORWARD	DEPARTMENTS WITH A MAJOR INTEREST	PREVIOUS DISCUSSIONS	OTHER COMMENTS
1 1985 Public Expenditure White Paper	Cabinet/EA/E(NI)	Early July	All	Cabinet/MISC106 in October/November 1984	
2 Contracting Out Conveyancing	E(DL)	April	Treasury Solicitor Scottish Office	E(DL) February	
3 Privatisation Progress Report	E(A)	Mid-April	All	E(A)(84)2nd	
4 Nationalised Industries Bill - Final policy agreement on nature and content of legislation	E(NI)	Early-April	All Nationalised Industry sponsor departments	E(NI)(84) 6th meeting	Depends on outcome of consultations
5 Nationalised Industries Quarterly Monitoring Report (end March)	E(NI)	End-May	All Nationalised Industry sponsor departments	Regular quarterly items	Usually cleared in correspondence
6 Nationalised Industries Investment and Financing Review	E(A)	Early July	All Nationalised Industry sponsor departments	Regular annual review	
7 ECGD Finances	EA	June/July	ECGD, DTI, FCO		Remit to CST from EX on 13 February
8 Public Service Pay and Conditions To consider changes to public service pension schemes, including making the civil service scheme contributory, in the light of the DHSS Inquiry into Provision for Retirement	H Committee (and/or Cabinet)	After publication of conclusions of MISC111	All departments, especially DHSS, DoE, HO, DES, SO, MOD, Cabinet Office (MPO)	E(PSP) on 24 July 1984	Timing of publication of conclusions of MISC111 uncertain



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9 Review Body reports (Armed Forces, Nurses, Doctors and Dentists, and Top Salaries)	Ad hoc PM meeting; and then Cabinet	Top Salaries report due June; rest in April	DHSS; MOD; D.Emp		
10 Future of Wages Councils: decisions following response to consultation document	E(A)	June	DE		
11 1985 Non-industrial Civil Service pay negotiations, including long-term pay arrange- ments; also lessons of the Newcastle Dispute	MISC66	April/May	Depts included in MISC66	Third Report from Chairman of Official Group (MISC67) discussed on 2 April	Timetable and need for further meetings depends on course of negotiations. Referen- to Cabinet may be necessary
12 Proposed Green Paper on the Reform of Personal Taxation	Not yet known	May/June	Revenue DHSS, DTI, D/En		Aim to publish later this year
13 Non-Domestic Rate Revaluation	E(LF)?	Summer 1985?	Revenue, DoE	MISC79	White Paper Commit- ment 1 August 1983 to set work in train. Early announcement of effective date required. May be affected by further review





cc Rm 317

Gegney  
Cabinet Office

- cc PS/CST
- PS/FST
- PS/EST
- PS/MST
- Sir P Middleton
- Sir T Burns
- Mr Bailey
- Mr Littler
- Mr Unwin
- Mr Byatt
- Mr Kemp
- Mr Monck
- Mr Anson
- Mr Cassell
- Mr Folger
- Mr Culpin
- Mr Pratt
- Mr Murphy
- Mr Cropper
- Mr Lord
- Mr Davies
- PS/C&E
- PS/IR

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

9 April 1985

Simon Hickson Esq  
Cabinet Office  
LONDON  
SW1

Dear Simon,

*[Handwritten signature]*

**FORWARD LOOK**

... I enclose our return showing details of business likely to come forward between mid-April and early August. It covers the Treasury and all the Chancellor's other departments.

Yours sincerely,

*Philip Wynn Owen*

P WYNN OWEN  
Assistant Private Secretary



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1. Radcliff  
2. Chancellor *PhW*

SECRET AND PERSONAL

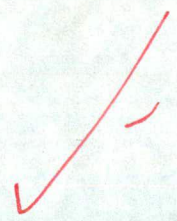
SCORECARD

COPY NO 3 OF 9

From: P R C GRAY

Date: 14 October 1985

CHIEF SECRETARY +1



- cc Chancellor -
- Sir P Middleton
- Mr Bailey
- Mr Turnbull
- Mr Perfect
- Mr Lord

TREASURY INTERNAL SCORECARD: 14 OCTOBER

With MISC 120 starting work tomorrow, you may like to have an update of the internal scorecard. This is attached.

2. The internal scorecard differs from that attached to your paper MISC 120 (85) 1 by including Treasury forecast outcomes for the disputed programmes. A number of the other detailed figures in the attached scorecard have also been updated from the version circulated to MISC 120.

3. In the last internal scorecard, dated 4 October, we pointed to forecast overshoots of:

	<u>£ billion</u>		
	1986-87	1987-88	1988-89
	1.7	2.4	3.0

We now show:

1.1	0.9	1.6
-----	-----	-----

4. The main reasons are:

- (i) The scorecard now includes the higher asset sales, lower Reserves and higher 1988-89 planning total proposed





in your MISC 120 paper. Together these are worth:

0.5                      1.0                      1.0

- (ii) A rough first approximation of the impact of the revised economic assumptions on the social security programme, after allowing for possible later estimating increases, is for reductions of:

0.1                      0.4                      0.4

But these figures are still being looked at.

6. So the latest forecast overshoots of, in broad terms, £1 billion in 1986-87 and 1987-88, and £1½ billion in 1988-89, are reached after allowing for the extra room for manoeuvre built into your MISC 120 paper and for the favourable news on social security. This highlights the importance of MISC 120 achieving tough settlements across the board.

PRC

P R C GRAY



**TREASURY INTERNAL SCORECARD**

Lmark2-scorecardJ  
LDATE:14 /10/85J

SECRET  
\*\*\*\*\*

COMPOSITE SCORECARD:

£million

EX	ac1 ac2 ac3	1986-87				1987-88				1988-89				
		Baseline	TSY	FORECAST	DEPT	Baseline	TSY	FORECAST	DEPT	Baseline	TSY	FORECAST	DEPT	
		999,999	999999	99999	999999	999,999	999999	99999	999999	999,999	999999	99999	999999	
		+		+			+		+			+		
		Survey baseline and proposed changes												
		MUD(1)	18,560	-300	20	422	18,859	-600	0	595	19,033	-708	192	897
		FCU-DDA	1,296	-20	4	64	1,317	-20	3	82	1,350	-19	3	98
		ATP	0	0	4	14	0	0	13	31	0	0	29	68
		FCU-OTHER*	603	36	36	36	619	39	39	39	635	57	57	57
		EC*	640	10	10	10	830	320	320	320	850	100	100	100
		IBAP/AFF CAP*	1,277	324	324	324	1,304	345	345	345	1,337	346	346	346
		AFF domestic*	713	8	8	8	699	5	5	5	717	3	3	3
		FORESTRY*	53	0	0	0	54	0	0	0	56	0	0	0
		TRADE/INDUSTRY*	1,162	-13	-13	-13	980	12	12	12	1,004	-25	-25	-25
		ECGD*	78	207	207	207	-43	219	219	219	-44	126	126	126
		ENERGY	294	1	21	27	293	-21	19	37	300	-20	20	40
		EMPLOYMENT* (excl SEMPs)	3,704	-74	-74	-74	3,901	-207	-207	-207	3,999	-125	-125	-125
		TRANSPORT*	1,955	27	27	27	1,995	33	33	33	2,045	52	52	52
		DOE-HOUSING	2,424	-21	318	855	2,526	-227	252	1028	2,589	-298	286	957
		DOE-PSA*	-120	7	7	7	-128	0	0	0	-131	0	0	0
		DOE-OTHER	848	-110	0	184	860	-99	0	126	882	-101	0	122
		HOME OFFICE*	1,061	43	43	43	1,104	44	44	44	1,131	55	55	55
		LCD*	574	21	21	21	610	39	39	39	625	72	72	72
		DES	3,418	-1	65	170	3,505	-11	65	182	3,593	-36	54	198
		OAL	333	-1	6	15	342	5	13	23	350	10	18	27
		HEALTH & PSS	14,945	0	250	409	15,622	0	300	484	16,012	0	600	870
		SOCIAL SEC.	41,547	736	1200	1004	43,553	0	757	506	44,642	0	1388	1185
		CIVIL SUPER.	1,114	65	65	65	1,226	86	86	86	1,257	147	147	147
		SCOTLAND	4,300	-93	7	7	4,373	-130	20	20	4,482	-188	12	12
		WALES*	1,708	-1	-1	-1	1,735	-1	-1	-1	1,779	-4	-4	-4
		N. IRELAND*	4,464	53	53	53	4,603	76	76	76	4,717	105	105	105
		Territorial conseq.	0	-20	170	310	0	-70	170	410	0	-90	280	530
		CHANCELLOR'S DEPT	1,825	155	163	163	1,842	168	169	169	1,888	138	143	143
		OTHER DEPTS	366	71	79	79	396	60	73	73	406	65	78	78
		(2) LA REL CUR(UK)(ELA) teachers pay	26,032	601	601	601	26,301	604	760	760	26,959	242	360	360
			0	228	228	228	0	300	300	300	0	400	400	400
		NAT IND												
		E(A)target ind settled*	1,495	-4	-4	-4	1,265	-77	-77	-77	1,299	-459	-459	-459
		Electricity E&W	-1,447	-100	100	191	-1,487	-350	-300	-94	-1,524	150	200	379
		Water E&W	123	0	33	33	15	0	0	0	15	-60	0	0
		Coal	382	408	458	508	392	233	283	333	402	97	147	198
		RMS & SRPS*	309	194	194	194	318	-41	-41	-41	326	-50	-50	-50
		BGC,NBC,BAA	-470	152	242	272	-390	390	390	390	-400	400	400	400
		SPECIAL SALES OF ASSETS	-2,250	-2250	-2250	-2250	-2,250	-2000	-2000	-2000	-2,250	-1750	-1750	-1750
		RESERVE	6,000	-1500	-1500	-1500	7,000	-1250	-1250	-1250	7,000	0	0	0
		3.3 % increase in 1988-89 total	0	0	0	0	0	0	0	0	1,627	-1627	-1627	-1627
		less double counting(3)	-254	0	0	0	-247	0	0	0	-258	0	0	0
		TOTALS	139,062	-1161	1122	2709	143,894	-2126	929	3097	148,700	-2995	1633	3985

\* agreement reached

(1) DM have agreed a revised a baseline switching £2m from 1987-88 to 1986-87.

(2) E(LA) figures for 1986-87 agreed. Figures for later years are forecast outcomes.

(3) DAFS and WUAD are in the baselines of both IBAP/AFF domestic and Scotland/Wales.



SECRET &amp; PERSONAL

JWS

## SCORECARD

Copy No 4 of 13 Copies

FROM: A Turnbull

DATE: 18 October 1985

1. MR BAILEY
2. CHIEF SECRETARY

Copies attached for

Yourself  
 Chancellor of the Exchequer  
 Sir P Middleton

cc Mr Anson  
 Mr Monck  
 Mr Scholar  
 Mr Gray  
 Mr Perfect  
 Mr Lord

Ch.  
 EST was used to  
 discuss a Monday  
 I got back already  
 have talked to  
 Bailey too

Rh.  
 18/10

## MISC 120 STOCKTAKING

MISC 120 will complete its first round of discussions on Tuesday afternoon and the meeting arranged for Wednesday morning has been set aside for stocktaking. The Group will need a paper which considers the position reached and sets out what might be required from each programme if the Group is to achieve the objective which the Chief Secretary put to it.

2. This paper could be circulated in the name of the Lord President, yourself, or the Secretariat. Lord Whitelaw has indicated a preference for the latter and provided the Treasury can control fairly closely the drafting of the paper (and the Secretariat seem to be prepared to be guided by us) we judge that there is tactical advantage in this course. The Group may feel happier with a paper presented from a neutral corner; and you would preserve greater freedom if an argument developed about the balance of the package. You will have an opportunity to discuss this with Lord Whitelaw on Monday evening.

3. Attached is a rough draft of such a Secretariat paper which would be circulated on Tuesday evening (22 October). It is set out in three parts: a distillation of the tentative conclusions to emerge from each meeting; a proposed package together with guidance on the (limited) scope for variation; and a commentary on the implications for each programme of securing the savings required.



4. The package we have assembled is still only a provisional one and we will need to work on it further with divisions to clarify the targets we should be aiming at. A number of points need to be made:

i) The position appears to be particularly tight in 1986-87 and the measures required to achieve the £1.8 billion which the Group has to distribute are severe. The position in the two later years, which benefit from revised economic assumptions by £700 million (against £200 million in year 1) is only slightly easier.

ii) There are a number of wild cards. First, the revised figures for coal could be substantially different pending review of NCB strategy. Secondly, in the revised social security figures, though agreed with DHSS are based on only a rough working through of the new economic assumptions. When more refined figures become available it is possible, and on past form likely, that some of the benefit of the economic assumptions will be offset by other estimating changes eg on take-up. They could be in the range of £100-£200 million. It is difficult, however, to conduct the discussions with Mr Fowler on other than the present figures. Finally, we are still awaiting figures for BGC's EFL in 1986-87.

5. The Group will need to consider whether the balance of the package corresponds with their priorities and whether, in putting offers to individual Ministers, it should over-bid slightly, or should make offers on a take-it-or-leave-it basis.

#### Conclusion

6. We would welcome the opportunity to discuss with you:



- i) whether you are content to proceed via a Secretariat paper ghosted by the Treasury;
- ii) the shape of the paper;
- iii) the tentative package suggested;
- iv) the Group's tactics in putting offers to Ministers.

AT

A TURNBULL



SECRET AND PERSONALDRAFT POSITION PAPER FOR MISC 120

The Group has now completed its first round of discussions, and will be holding a stocktaking meeting on 23 October. This note seeks to summarise the position reached on the outstanding programmes, and relate it to the overall room for manoeuvre set out in the Chief Secretary's paper MISC 120 (85) 1. As the basis for a discussion of the state of play, the paper concludes with one possible package of recommendations.

2. One major difficulty at this stage is the lack of progress in discussions on the coal and gas industries. For the coal industry, the Group does not yet know what figures the Secretary of State for Energy will be proposing. It has therefore been necessary in this note to make broad, and necessarily approximate, assumptions.

The Group's Initial Reactions

3. The Secretariat interprets the Group's initial reactions following the first round of meetings as:

- (i) **Defence:** the Secretary of State's offer to reduce his bids by some £200-250 million a year is quite inadequate. It leaves his net bids rising over the three years from £200 million to £650 million and a very long way from the Chief Secretary's proposals for net reductions of £300 million rising to £700 million.
- (ii) **ODA/ATP:** after taking account of contributions from other departments towards the costs of an extended ATP scheme, the ODA programme should be settled at around the baseline level.
- (iii) **Electricity/Fast Reactor:** [To follow].



- (iv) **Housing:** The Group considers the size of the Secretary of State's bids for extra renovation expenditure as unjustified, but accepts that a small addition should be made to this part of the programme. The addition should, however, if possible be offset by reductions in the provision for new build and improvement grants.
- (v) **Education and Science:** a small addition to the programme would be justified, but it must be properly targetted towards the particular areas of priority within the science and universities' budgets. A small addition might also be made for the education component of local authority capital.
- (vi) **Health:** the Group recognises that the Secretary of State has reduced his bids, but his remaining demands for £300 million rising over the period to £750 million remain more than can be justified, particularly in 1988-89. The bids should be substantially further reduced by a combination of higher efficiency savings and rejection of bids to offset pay and price squeezes in the current year.
- (vii) **Social Security:** [To follow including the effects of revised economic assumptions].
- (viii) **Scotland:** all feasible avenues for achieving savings should be explored.
- (ix) **Water:** [To follow].

The room for manoeuvre

4. The Chief Secretary's paper MISC 120 (85) 1 indicated that the following total sums were available for distribution between the remaining programmes:

			£ billion
1986-87	1987-88	1988-89	
+1.8	+0.7	+1.6	



5. These figures have now marginally changed to:

+1.7            +0.6            +1.5

reflecting the inclusion in the figures agreed to date of the territorial formula consequentials for those programmes.

A possible package

6. The attached table provides sets of figures for the three Survey years which allocate out the total sums available in paragraph 5 above. This gives a package of recommendations (middle columns of the table) which, along with the figures for agreed programmes (which now include Chief Secretary's proposals for asset sales and the Reserve) would allow the agreed planning total targets to be met.

7. The Group will naturally wish to consider the figures put forward for each programme, and the balance and relative priorities between them. But, to the extent that the Group felt higher figures were justified in some areas, these would have to be matched by lower figures elsewhere if the planning total targets were still to be met.

8. The broad implications of the figures in the package would be:

(i) **Defence:** reductions below baseline (excluding Falklands where there is an agreed addition of £192 million in 1988-89) of £200 million in 1986-86 rising to nearly £500 million in 1988-89. The case for this would be the scope for raising outputs through increased efficiency. The implied real terms reductions in the cash inputs to the programme are [    ].

(ii) **ODA/ATP:** the Secretary of State's additional bid for the bilateral aid programme would be rejected, and he would need to absorb within the baseline that part of the Option C ATP package which could not be financed by contributions from other Departments.



- (iii) **Energy:** (Departmental programme): a review of fast reactor R&D, with a small reduction of [£10 million] on account.
- (iv) **Housing:** in addition to the unavoidable additions arising from higher interest rates (roughly £150 million in each of the first two years) and £50 million in the third year there would be net additions to provision of nil in 1986-87, £50 million 1987-88, and £100 million in 1988-89. This would comprise increases on renovation of [ ] offset by savings on new build and improvement grants of [ ].
- (v) **DOE Other:** [The Chief Secretary and Secretary of State have now agreed bilaterally to settle this programme at baseline in 1986-87 and at -£10 million in the later two years].
- (vi) **Education and Science:** in addition to increases previously agreed between the Chief Secretary and the Secretary of State, an extra [£10 million rising to £20 million] would be provided for science and elements of the university programme, and an extra [£25 million a year] for local authority capital.
- (vii) **Health:** net additions of £200 million, £250 million and £450 million respectively would be made available; this is approximately £100 million in each of the first two years and £300 million in 1989-89 below the Secretary of State's revised bids. This scaling down of the bids would be based on efficiency savings of 2%, 2½% and 3% over the period (compared with the Secretary of State's proposed 2% each year), lower provision for additional pay and price bids and less provision for demography in 1988-89.
- (viii) **Social Security:** the settlement would be based on deducting from the Secretary of State's proposals



provision for any uprating of child benefit throughout the period and continued postponement of the abolition of the pensioners' earning rule, plus about £50 million savings from other measures.

- (ix) **Scotland:** the figures assume that means would be found to reduce the provision by £100 million a year. If possible this would be done by "invisible" means, but if not, the figures would be presented and justified on the grounds of relative falls in the Scottish population since the start of the block arrangements.
- (x) **Territorial Consequentials:** this represents the normal working of the formula arrangements whereby changes in comparable English programmes are automatically reflected in adjustments to the territorial programme totals.
- (xi) **Electricity:** this would require savings of about £100-130 million a year from the Secretary of State's proposals. [It would not require a increase in prices higher than that currently envisaged by the industry].
- (xii) **Water:** the settlement would be based on the Chief Secretary's proposals for baseline in the first two years and a net reduction of £60 million in 1988-89 subject to a review of the water industry's financial framework in preparation for privatisation.
- (xiii) **Coal:** as noted above, firm proposals for the coal industry are not yet available; the figures represent a rough Treasury guess at the possible outcome, though this is subject to a large margin of uncertainty.
- (xiv) **Gas:** for 1987-88 and 1988-89 the external finance limit for BGC will drop out of the figures following privatisation. For 1986-87, where a part year figure is to be included, the figures assume action to make



the negative EFL about £100 million tighter than assumed by the Secretary of State.

Conclusion

9. The Group will wish to consider:
- (a) whether a package along these lines is the sort of outcome to which it should now be working.
  - (b) whether any changes should be made in the balance between programmes.
  - (c) how the discussions with the responsible Secretaries of State during the second round of meetings should be conducted.



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[mark2-misc]

[DATE: 18/10/85]

## COMPOSITE SCORECARD:

£million

	1986-87				1987-88				1988-89			
	Baseline	TSY	PACKAGE	DEPT	Baseline	TSY	PACKAGE	DEPT	Baseline	TSY	PACKAGE	DEPT
TOTAL AGREED SO FAR	52,509	-1726	-1726	-1726	53,724	-616	-616	-616	56,574	-1531	-1531	-1531
MOD(1)	18,560	-300	-200	422	18,859	-600	-300	595	19,033	-708	-300	897
FCO-ODA ATP	1,296	-20 0	0 0	64 14	1,317	-20 0	5 0	82 31	1,350	-19 0	10 0	98 68
ENERGY	294	1	17	27	293	-21	20	37	300	-20	25	40
DOE-HOUSING	2,424	-21	150	855	2,526	-227	200	1028	2,589	-298	150	957
DOE-OTHER	848	-110	0	184	860	-99	-10	126	882	-101	-10	122
DES	3,418	-1	65	170	3,505	-11	60	182	3,593	-36	50	198
OAL	333	-1	-1	15	342	5	5	23	350	10	10	27
HEALTH & PSS	14,945	0	200	409	15,622	0	250	484	16,012	0	450	870
SOCIAL SEC.	41,547	733	900	982	43,553	20	360	459	44,642	2	864	1144
SCOTLAND	4,300	-93	-100	7	4,373	-130	-100	20	4,482	-209	-100	-9
Territorial conseq.		-70	65	320		-140	85	380		-150	140	480
NAT IND												
Electricity E&W	-1,447	-100	100	191	-1,487	-350	-210	-94	-1,524	150	250	379
Water E&W	123	0	0	33	15	0	0	0	15	-60	-60	0
Coal	382	408	350	508	392	233	250	333	402	97	50	198
EGC	-470	152	175	272								
TOTALS	139,062	-1148	-5	2747	143,894	-1956	-1	3070	148,700	-2873	-2	3938

SECRET AND PERSONAL







increases and in the 1985 Budget the planning totals were revised upwards in cash terms.

iii) In setting plans for 3 years hence in cash terms there has often been excessive optimism about factors affecting demand-led programmes such as unemployment, public sector pay and interest rates. We have been trying to counter this (the line for the last two Surveys is flatter), but we have not yet found a way of eliminating it, eg for local authorities. As what started as the final year has moved forward, the cash provision has therefore looked increasingly unsustainable. The gap has been bridged either by increasing asset sales or, in last year's Budget, by raising the planning total explicitly. This chart excludes asset sales, so that both courses score as an increase.

3. For the current Survey period, the chart shows two developments. First, starting in 1985-86 the trend in forecast expenditure is slower than the historical one; but secondly this trend is nevertheless quite markedly faster than the 'broadly stable in real terms' path in the MTFs. The justification for the first is that certain large programmes such as defence, social security and local authority current expenditure are not expected to grow as rapidly in real terms as in the past and that it is assumed that no programmes equally as large will take up the running.

4. On the second, the forecasters are predicting that public expenditure in 1987-88 will be £2 billion higher than the current planning total and £5½ billion higher in 1988-89. (The proposal to add £½ billion to the planning total in the last year has not been brought into the forecast.) The forecast implies that the Reserve should be £7 billion in 1987-88 and £10½ billion in 1988-89. This compares with the £5½ billion and £7 billion currently envisaged in the Survey arithmetic.



5. The factors behind the projections of rapidly rising expenditure on programmes are:

i) continued upward drift beyond plans agreed in the Survey for social security expenditure reflecting a continuation of the tendency to under-provide for growing take-up - £½ billion in 1986-87 rising to £1½ billion in 1988-89;

ii) an expectation that Ministers will concede discretionary additions to programmes in future Surveys totalling £½ billion in 1987-88 and £¾ billion in 1988-89, in addition to the £¾ billion a year which is set aside for discretionary allocation from the Reserve during the course of each year;

iii) a substantial and growing wedge between provision for local authority current expenditure and the expected outturn. The planned provision (including our proposed Survey additions) rises by only 1-2 per cent a year in cash terms in the face of pay increases which the forecasters expect to be around 6-7 per cent a year. The forecasters project a further overspend rising from £1 billion in 1986-87 to £3 billion in 1988-89. In making this projection the forecasters have taken a judgement about the effectiveness of the current arrangements for restraining local authority expenditure;

iv) some additions to cash limited programmes to reflect an increasing gap between pay and the prices implicitly assumed in plans;

v) an overrun on nationalised industry EFLs which is projected to grow from £1 billion in 1986-87 to £2 billion in 1988-89. This reflects in part the optimism of present provision given the forecast of earnings, and in part the adverse impact of much lower oil prices on the NCB's finances.

*Suspense*



6. Queries can be raised against each of these elements. It is possible that the new social security system and better forecasting about to be introduced by DHSS will bring the upward drift of social security expenditure under better control. It can be argued, too, whether for the purpose of fixing planning totals and Reserves for later years we should be making an allowance for discretionary additions to programmes in later Surveys. Given the experience of recent years, however, it is difficult to conclude that the projections are unrealistic.

7. In contrast to these large implied reserves in the two later years, the forecasters suggest that calls on the Reserve in 1986-87 might be no more than £3¼ billion. Table 5b of Miss Peirson's submission - copy attached - compares the main Reserve components for this year and next, net of the £1.2 billion this year for the coal strike.

8. GEP and the forecasters would not, however, want to draw the conclusion that the Reserve can be further trimmed beyond the £4½ billion now envisaged. There are a number of risks, and nearly all one way.

i) The forecasters have assumed for example that £¼ billion of the EC rebate due in 1985-86 will arrive next year instead to help replenish the Reserve.

ii) We have little knowledge of how local authorities will behave in a targetless world. The forecasters have estimated an overspend of £1.1 billion next year, but it could be substantially more than that while the chances of an underspend on a programme planned to rise only 1-2 per cent in cash terms are negligible.

iii) A similar asymmetrical risk arises on asset sales. If one of the major sales now planned runs into a snag it will be extremely difficult to mount alternative operations to make good the difference, whereas in the past this has frequently proved possible.



iv) There is no allowance for the forecast's economic assumptions themselves being over-optimistic, eg on pay or prices.

v) All genuinely unexpected contingencies will have to be met from the £¼ billion allowance for discretionary changes plus the modes amounts allowed for increases to programmes in later Surveys. On past form this is reasonable, but it makes no provision for major events such as long strikes.

9. Having increased the planning total this year to create room for an adequate Reserve, it would be difficult to carry conviction with the financial markets if it is substantially cut back. With this year's Reserve looking like being at least fully spent we are already going to have a difficult task to convince the markets that £4½ billion will suffice.

10. One general conclusion emerges from this. In the last White Paper we provided Reserves in the ratio of 3:4:5, subsequently raised to 5:6:7. It is likely that a more pronounced wedge profile better reflects the way in which unknown or provisional claims are translated into programmes. In this respect the 4½:5¾:7 currently envisaged seems a more plausible profile, though in an ideal world the figures in the two later years should be even higher: while it would be difficult now within the planning totals currently agreed to cut back programmes enough to build still larger Reserves, we should resist any further reduction in the Reserves. This requires the toughest possible outcome from the current Survey and the fewest possible settlements with contingent liabilities for future years.

AS



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TABLE 5

## REQUIRED RESERVE

B. Forecast claims on Reserve (£bn):-

	1985-86	1986-87
Social security	1.1	0.5
Other non-cash-limited CG	1.0	0.3
Cash-limited CG (underspend)	-0.3	- 0.2
Discretionary allocations	0.6	0.7
LA relevant current	1.0	1.1
LA capital	0.6	0.4
Nationalised industries	0.1*	1.0
EC contributions	0.3	- 0.4
Other programmes	-	- 0.2
<b>Total claims</b>	<u>4.4*</u>	<u>3.2</u>
Coal strike	<u>1.2</u>	

\* Adjusted for strike.