

TPM

PRIME MINISTER

PUBLIC EXPENDITURE - THE EDUCATION PROGRAMME

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The Chief Secretary is concerned however about the education programme. For technical reasons, it is necessary for Mr MacGregor to submit some bids before the deadline. These cover the specific grants paid by central government towards local authority education expenditure.

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In order to smooth the Survey process, the Treasury see some advantage in the message about the need for modest bids being reinforced to DES.

You did of course intend to have a word with Mr MacGregor about his bids in the margins of the meeting on the national curriculum last week; but pressure of time did not give the opportunity.

Do you want to find another opportunity, ideally in the margins of some other meeting, to have a word with Mr MacGregor?

BHP

Yes not

Barry H Potter

18 May 1990

a: public (MJ)

file

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MONTHLY NOTE ON THE PSBRSummary

- The PSBR in April is provisionally borrowing of £2.1 billion. Excluding privatisation proceeds this is £1.3 billion higher than in April 1989 and £1.1 billion higher than anticipated last month.
- Higher than expected borrowing by local authorities more than accounted for the £1.1 billion forecast error in April. Borrowing by public corporations was also higher than expected, while central government borrowing was lower than expected.
- High borrowing by local authorities in April followed lower than expected borrowing in March. This may partly reflect capital expenditure incurred in March but not recorded in local authority accounts until April. Delays in the payment of community charge may also be partly responsible.
- Recent trends in the PSBR indicate a close correlation between public finances and economic activity.
- The forecast PSBR in the period May to July is expected to be £0.1 billion, the same as in the Budget profile. This would bring the total for the first four months of 1990-91 to £2.2 billion. Excluding privatisation proceeds, this is £0.6 billion higher borrowing than in the same period in 1989.

Monthly note on the PSBR: circulation:

Chancellor	Mr O'Donnell - (IDT)
Chief Secretary	Mr Grice - (MG2)
Financial Secretary	Mr McIntyre - (MG1)
Paymaster General	Mr Richardson - (GEP2)
Economic Secretary	Mr Ilett- (LG1)
Sir P Middleton	Ms Turk - (PSF)
Sir T Burns	Miss Summerfield (GEP)
Sir J Anson	Mrs Todd - (Accounts)
Mr Scholar	Mrs Wright - (PSF)
Mr Odling-Smee	Mrs Williams - (MG1)
Mr Sedgwick - (EA)	Mr Barrie - (MP1)
Mr Peretz - (MG)	Mr Brooks - (MG2)
Mr Riley - (MP)	Mr Fry - (PSF)
Mr Robson - (PE)	Mrs Chaplin
Mr Culpin - (FP)	Mr Tyrie
Mrs Lomax - (GEP)	Mr Lightfoot
Mr Mowl - (PSF)	Mr Potter - (No. 10)
Mr Watts - (Accounts)	Mr Calder - (IR)
Mr Bent - (PE)	Mr Parker - (C & E)
Mr Taylor - (GEP3)	Mr Vernon - (C & E)

PSBR in April

1. The PSBR in April is provisionally borrowing of £2.1 billion, the bulk of which was accounted for by local authorities. April's PSBR was £1.1 billion higher than forecast in last month's Budget profile; higher than expected borrowing by local authorities in particular and by public corporations were only partly offset by lower than expected borrowing by central government. Excluding privatisation proceeds, the PSBR in April is £1.3 billion higher than a year ago.

Table 1: Borrowing in April

£billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
1990 outturn	2.1	0.3	1.6	0.2
Difference from:				
1990 Budget profile	+1.1	-0.7	+1.5	+0.3
1989 outturn excluding privat- -isation proceeds	+1.3	-0.3	+1.0	+0.6

2. The lower than expected borrowing by central government reflects mainly higher Customs and Excise receipts (by £0.2 billion) and lower than expected departmental outlays (by £0.3 billion). The former may be the result of greater than assumed Budget forestalling in March which, because of payments lags, increases receipts in April. There is no information yet on the breakdown of the lower central government spending.

3. The LABR in April is the highest ever monthly figure both in cash and real terms, and the forecast error of £1.5 billion more than accounted for the whole of the error on the PSBR. There are two main factors which may be contributing to the lower than expected April outturn:

- some local authority borrowing may have slipped from March to April. It was assumed that borrowing in March would be high in view of the incentive to forestall the new capital finance regime. Part of this borrowing may have spilled over into April if cheques issued in March did not clear until April. This would be more likely if a high proportion of March spending took place

right at the end of the month; if local authorities wished to bring forward capital purchases from 1990-91 there would have been every advantage to leaving the purchases as late as possible in 1989-90.

- receipts of community charge and NNDR may have been less than expected as a result of late billing and late payment. Charge capping may have contributed to both. Some allowance was made for this factor in the Budget profile, but it was assumed that the change in the timing of rate support grant, which is now more concentrated in the early months, would more than offset it.

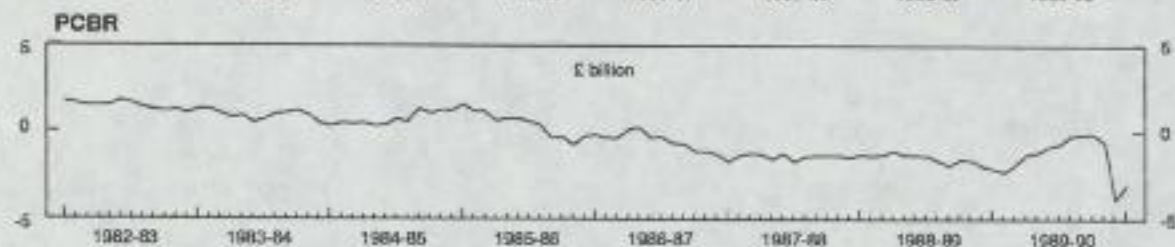
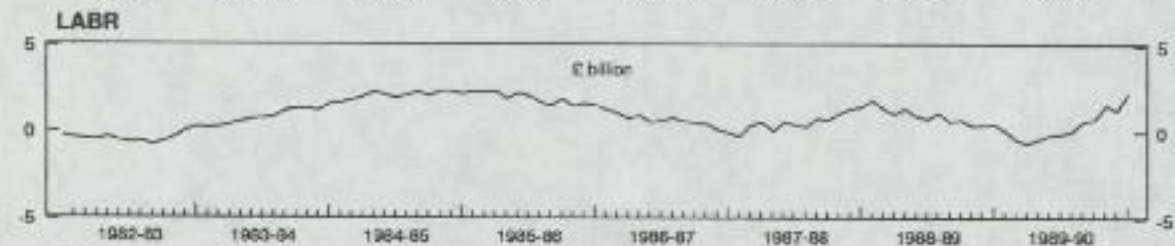
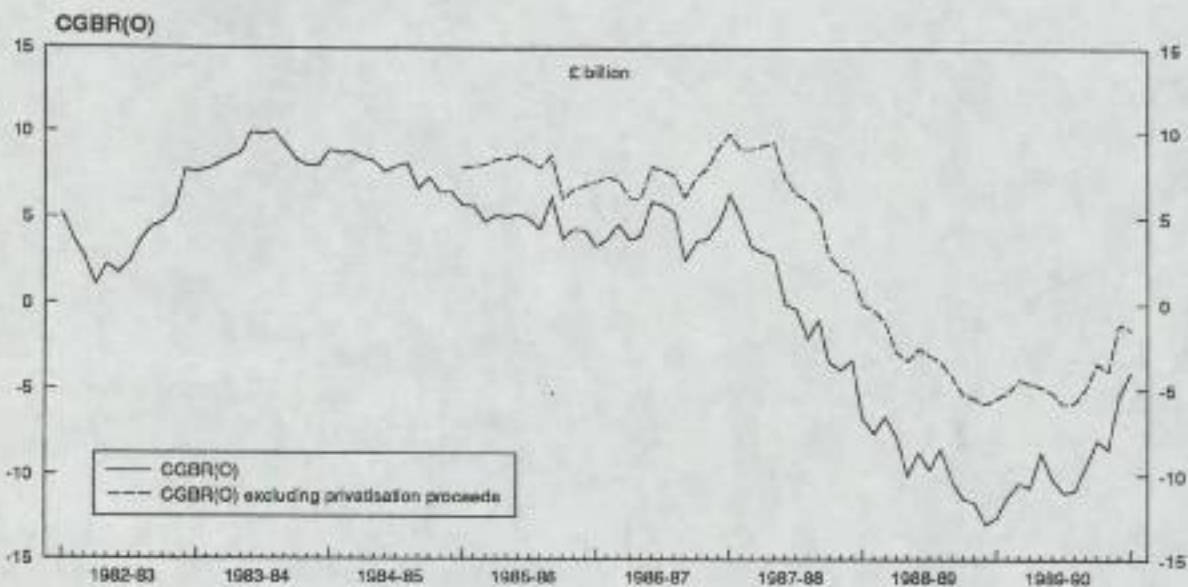
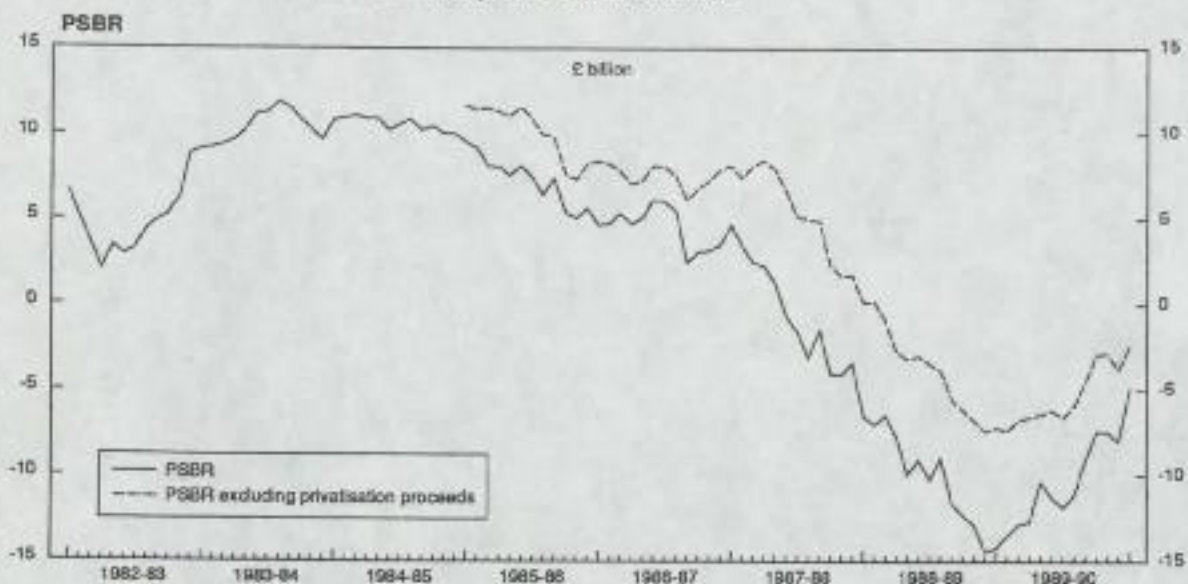
4. There is little information so far on why public corporations borrowed £0.3 billion more than expected in April. All that is known is that the Post Office borrowed £0.1 billion more than forecast.

Recent trends in the PSBR

5. Chart 1 shows total borrowing over the previous twelve months for the PSBR and its components since the beginning of 1982-83. The observations for March in each year therefore coincide with the financial year totals and the figures for the other months are on a comparable (ie twelve-monthly) basis.

6. The charts show that between 1983-84 and 1988-89 there was a clear downward trend in the PSBR which became much more marked at the beginning of 1986-87. The trend was sharply reversed at the end of 1988-89 reflecting primarily the behaviour of the CGBR(O) with smaller contributions from the LABR and PCBR. The timing of these changes in trend has coincided with turning points in economic activity; the acceleration in growth in 1987 and 1988 was reflected in a much faster improvement in public finances, while the more recent downturn in economic activity has been associated with a reduction in the budget surplus.

Chart 1 Trends in the PSBR: total over previous twelve months



Forecast for May to July

7. The PSBR is forecast to be borrowing of £0.5 billion over the next three months, bringing the PSBR in April to July to a total of £2.6 billion.

8. The forecast monthly path of the CGBR(O) in May to July is as detailed below:

- In May the CGBR(O) is forecast to be £0.9 billion. Debt interest payments are expected to be seasonally high and Inland Revenue receipts low. Partly offsetting these factors will be the usual high receipts of VAT.
- In June, the CGBR(O) is forecast to be £1.9 billion. Both Inland Revenue and Customs and Excise receipts are normally low in June, but are expected to be offset by seasonally low interest payments. A PSBR neutral grant to British Coal of £0.6 billion is also expected in June.
- In July, the CGBR(O) is forecast to be a net repayment of £1.6 billion. Receipts of schedule D income tax and advance corporation tax are, as usual, expected to be high in July and will be only partly offset by high interest payments.

9. The CGBR(O) for May to July assumes that there will be some unwinding of April's discrepancy from the Budget profile for Customs and Excise and net departmental outlays. In addition, Inland Revenue receipts are now expected to be somewhat less than the Budget profile in May. On the other hand, receipts of national insurance contributions are expected to continue to be rather above profile. The net effect is an expected reduction in April's discrepancy from the Budget profile; the CGBR(O) in the first four months is expected to be £1.4 billion, £0.3 billion less than in the Budget profile.

Chart 2 Comparisons with 1989-90

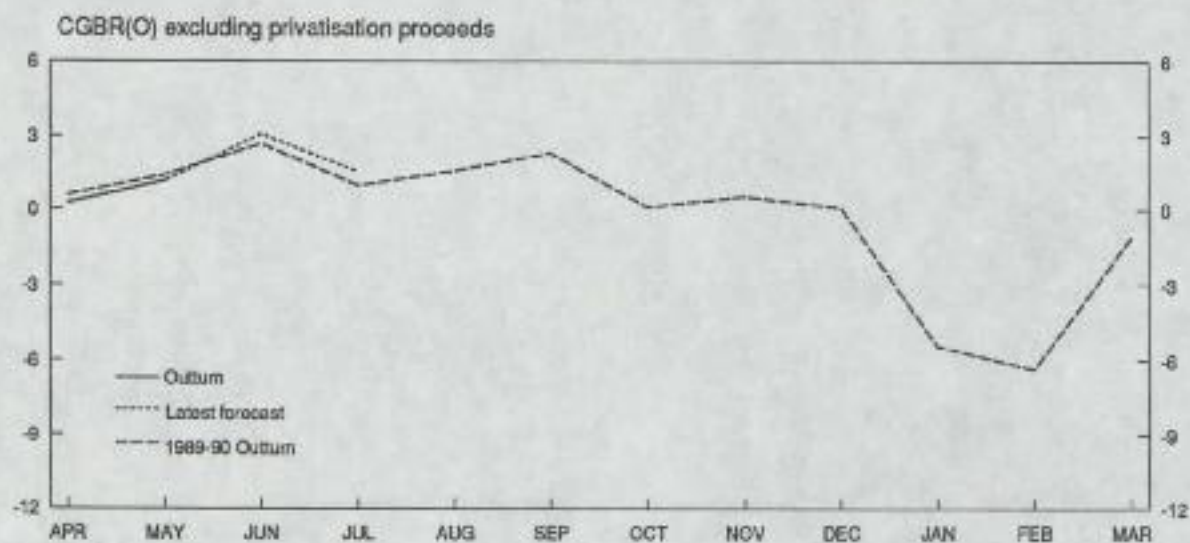
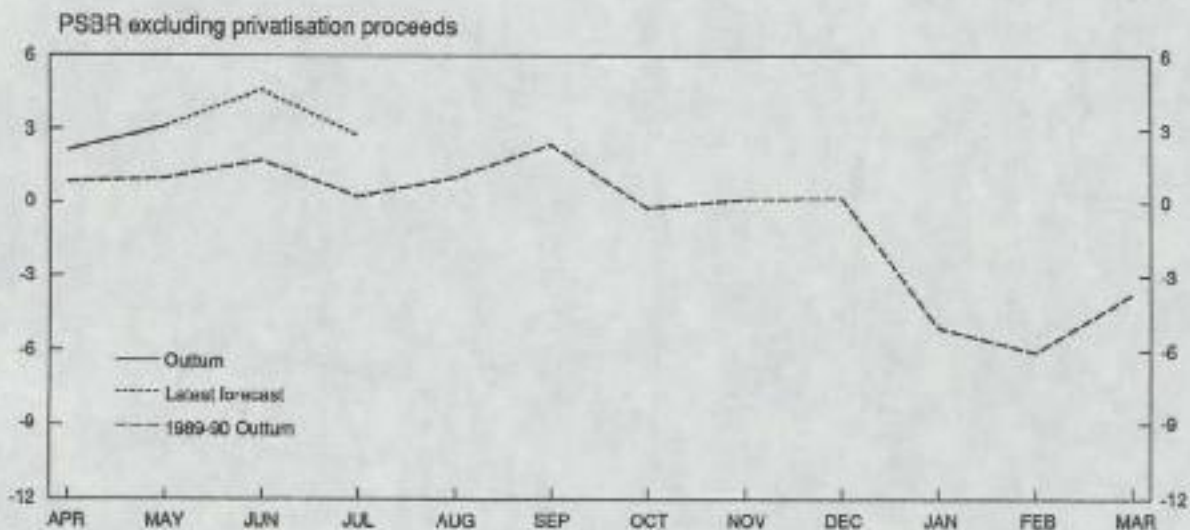
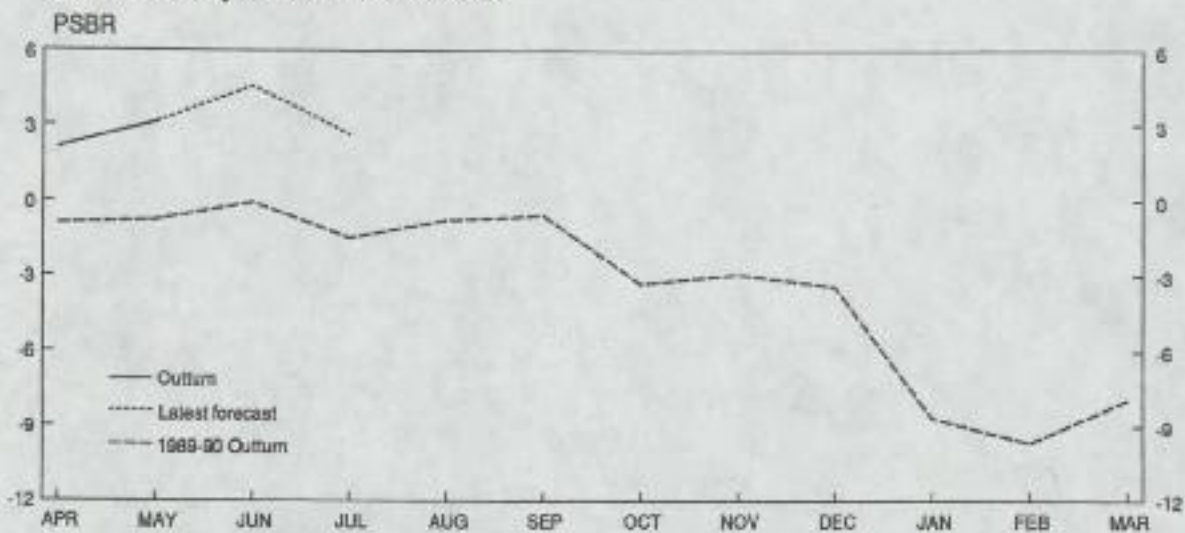
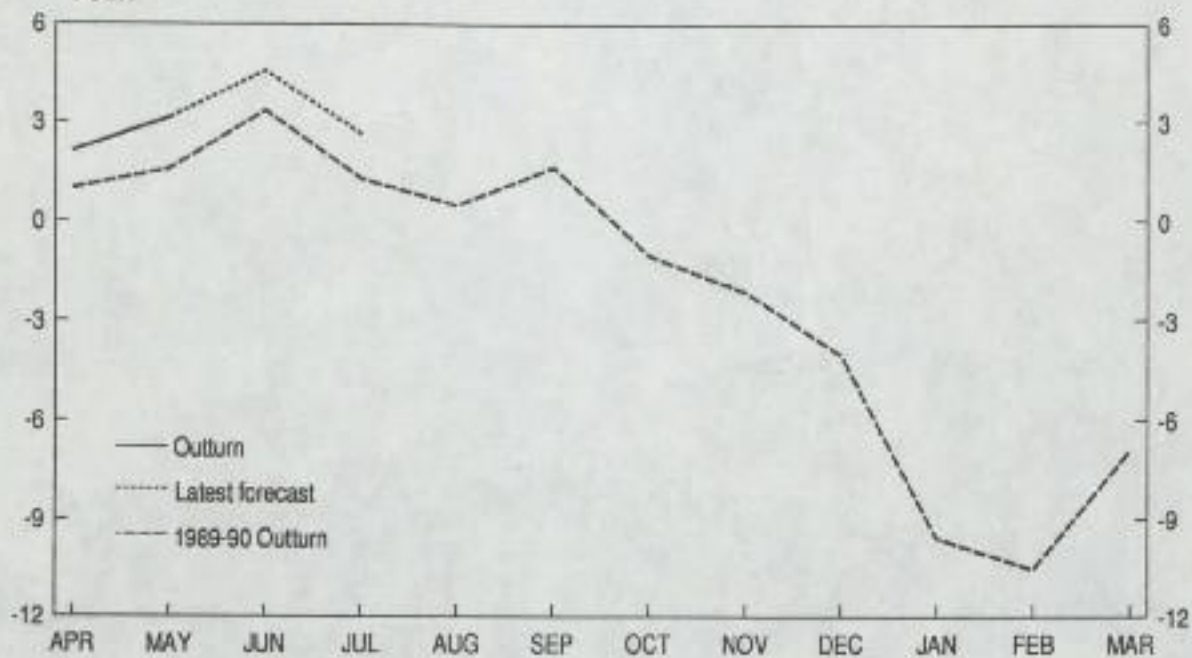
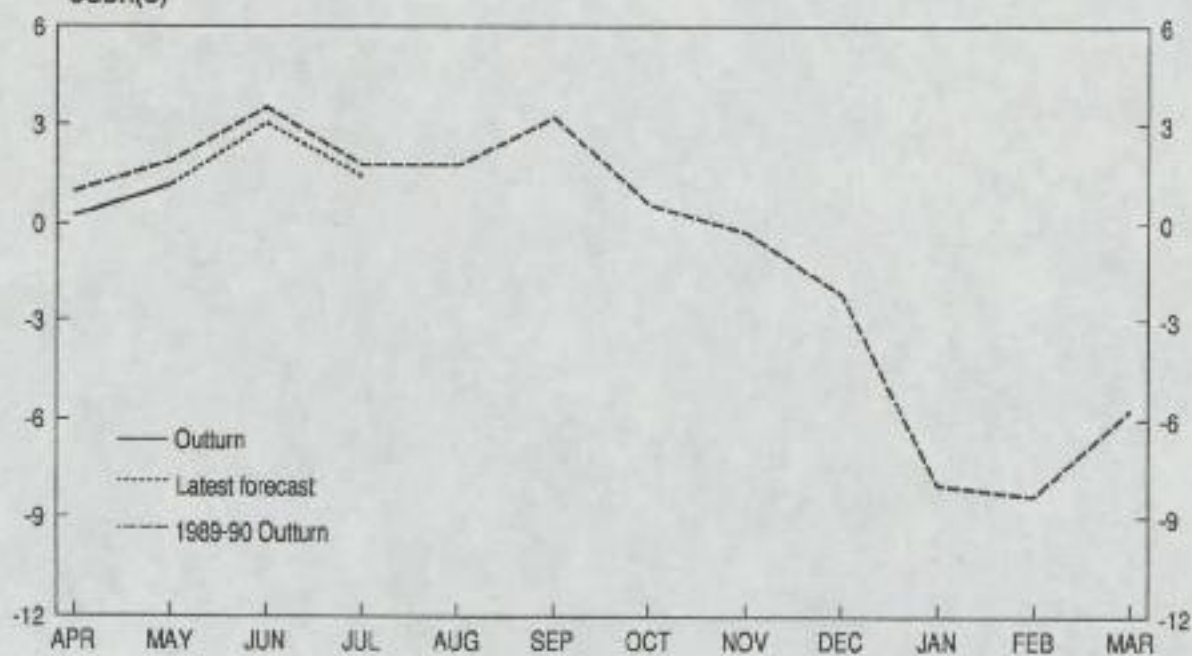


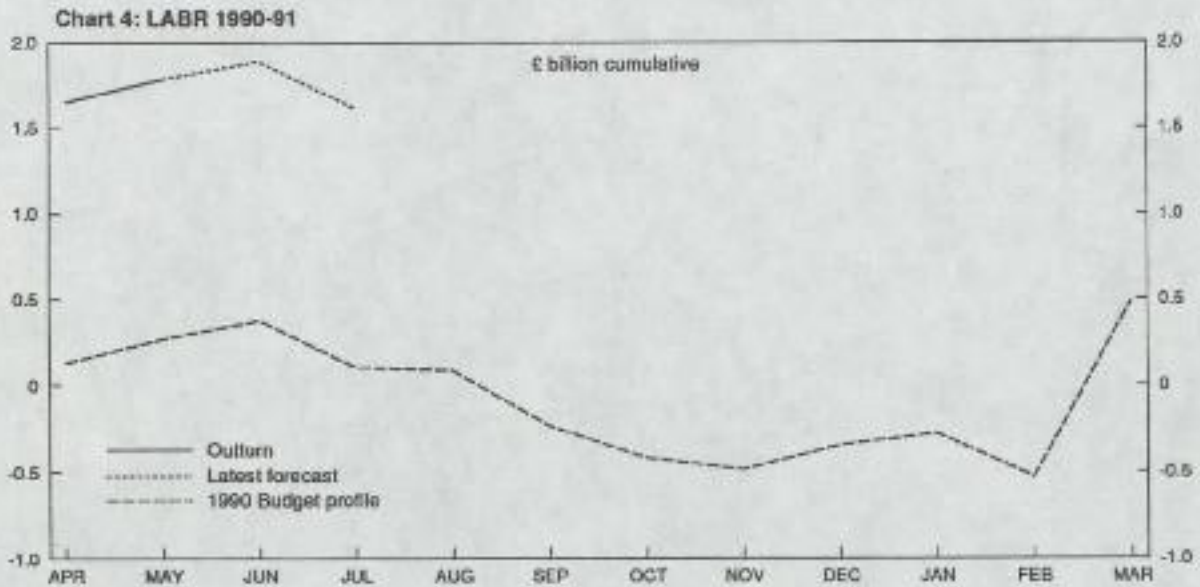
Chart 3 Comparisons with 1990 Budget profile
PSBR



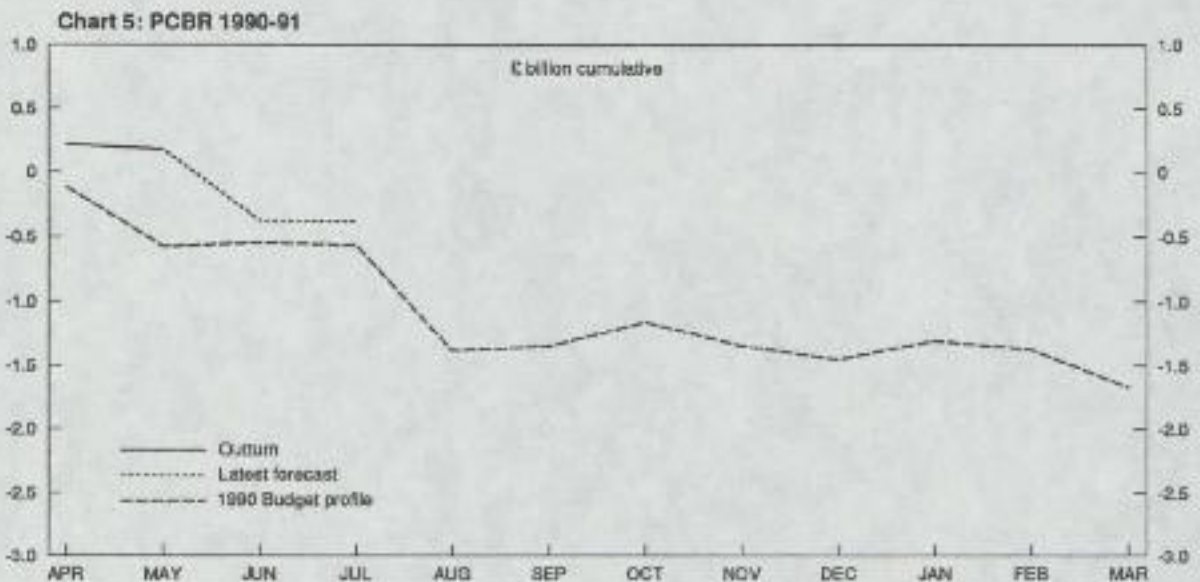
CGBR(O)



10. Local authorities are expected to make a net repayment of £0.1 billion over the next three months, bringing the LABR for the first four months to £1.6 billion. This is rather higher borrowing than in the same period in recent years as a result of the assumption that community charge receipts will be spread more evenly through the year than were domestic rates. In previous years, a high proportion of rate income was received in May and June as a result of a high proportion of payments being made in two instalments due in April and October. Later receipts of community charge are, however, expected to be partly offset by earlier payment of rate support grant.



11. Public corporations are expected to make a net repayment of £0.6 billion in May to July, which would more than offset borrowing in April of £0.2 billion. Excluding the expected £0.6 billion grant from central government to British Coal in June, which is PSBR neutral, the PCBR in the first four months would be £0.2 billion, the same as in April to July last year.



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Table 2:

1990-91 Outturn and latest forecasts
(1989-90 Outturn in italics for comparison)

£ billion

	PSBR		CGBR(O)		LABR		PCBR	
Apr	2.1	-0.9	0.3	-1.1	1.6	0.7	0.2	-0.4
May	1.0	0.1	0.9	0.9	0.1	-0.4	0.0	-0.3
Jun	1.4	0.7	1.9	1.2	0.1	-1.0	-0.6	0.4
Jul	-1.9	-1.4	-1.6	-1.7	-0.3	-0.3	0.0	0.5
Aug		0.7		0.6		0.3		-0.2
Sep		0.2		-0.4		0.1		0.5
Oct		-2.8		-2.4		-0.5		0.1
Nov		0.4		0.4		-0.1		0.1
Dec		-0.5		-1.0		0.7		-0.2
Jan		-5.3		-5.5		0.1		0.1
Feb		-1.0		-0.9		0.7		-0.8
Mar		1.7		4.5		0.9		-3.7
Cumulative								
Apr	2.1	-0.9	0.3	-1.1	1.6	0.7	0.2	-0.4
May	3.1	-0.8	1.2	-0.3	1.8	0.3	0.2	-0.7
Jun	4.6	0.0	3.1	0.9	1.9	-0.7	-0.4	-0.3
Jul	2.7	-1.5	1.4	-0.8	1.6	-1.0	-0.4	0.3
Aug		-0.7		-0.2		-0.7		0.1
Sep		-0.5		-0.6		-0.5		0.6
Oct		-3.3		-2.9		-1.0		0.7
Nov		-2.9		-2.5		-1.1		0.7
Dec		-3.4		-3.5		-0.5		0.6
Jan		-8.7		-9.0		-0.4		0.7
Feb		-9.7		-9.9		0.4		-0.1
Mar		-7.9		-5.3		1.2		-3.8

Excluding privatisation proceeds Privatisation proceeds

	PSBR		CGBR(O)			
Apr	2.1	0.8	0.2	0.6	0.0	1.7
May	1.0	0.2	0.9	0.8	0.0	0.0
Jun	1.5	0.7	1.9	1.2	0.0	0.0
Jul	-1.8	-1.4	-1.5	-1.7	0.1	0.0
Aug		0.7		0.6		0.0
Sep		1.4		0.7		1.2
Oct		-2.6		-2.2		0.1
Nov		0.4		0.4		0.0
Dec		0.1		-0.4		0.5
Jan		-5.3		-5.5		0.0
Feb		-1.0		-0.9		0.0
Mar		2.4		5.2		0.6
Cumulative						
Apr	2.1	0.8	0.2	0.6	0.0	1.7
May	3.1	1.0	1.2	1.4	0.0	1.8
Jun	4.6	1.7	3.1	2.7	0.0	1.8
Jul	2.8	0.3	1.5	1.0	0.1	1.8
Aug		1.0		1.6		1.8
Sep		2.4		2.3		2.9
Oct		-0.2		0.1		3.1
Nov		0.1		0.5		3.1
Dec		0.2		0.1		3.6
Jan		-5.1		-5.4		3.6
Feb		-6.1		-6.4		3.6
Mar		-3.7		-1.1		4.2

Note: Figures for May, June and July in 1990-91 are forecasts

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Table 3: 1990-91 Outturn and latest forecasts
(1990 Budget profiles in italics for comparisons)

	PSBR		CGBR(O)		LABR		PCBR	
Apr	2.1	1.0	0.3	1.0	1.6	0.1	0.2	-0.1
May	1.0	0.6	0.9	0.9	0.1	0.1	0.0	-0.5
Jun	1.4	1.8	1.9	1.6	0.1	0.1	-0.6	0.0
Jul	-1.9	-2.0	-1.6	-1.8	-0.3	-0.3	0.0	0.0
Aug		-0.8		0.0		0.0		-0.8
Sep		1.2		1.4		-0.3		0.0
Oct		-2.6		-2.6		-0.2		0.2
Nov		-1.1		-0.9		-0.1		-0.2
Dec		-1.9		-1.9		0.1		-0.1
Jan		-5.6		-5.8		0.1		0.2
Feb		-1.0		-0.3		-0.3		-0.4
Mar		3.7		2.6		1.0		0.0
Cumulative								
Apr	2.1	1.0	0.3	1.0	1.6	0.1	0.2	-0.1
May	3.1	1.6	1.2	1.9	1.8	0.3	0.2	-0.6
Jun	4.6	3.3	3.1	3.5	1.9	0.4	-0.4	-0.5
Jul	2.7	1.3	1.4	1.8	1.6	0.1	-0.4	-0.6
Aug		0.5		1.8		0.1		-1.4
Sep		1.6		3.2		-0.2		-1.4
Oct		-1.0		0.6		-0.4		-1.2
Nov		-2.1		-0.3		-0.5		-1.3
Dec		-4.0		-2.2		-0.3		-1.5
Jan		-9.6		-8.0		-0.3		-1.3
Feb		-10.6		-8.4		-0.5		-1.7
Mar		-6.9		-5.7		0.5		-1.7

Excluding privatisation proceeds Privatisation proceeds

	PSBR		CGBR(O)			
Apr	2.1	1.0	0.2	1.0	0.0	0.0
May	1.0	0.6	0.9	0.9	0.0	0.0
Jun	1.5	1.8	1.9	1.6	0.0	0.0
Jul	-1.8	-2.0	-1.5	-1.7	0.1	0.1
Aug		0.6		1.5		1.4
Sep		1.1		1.4		0.0
Oct		-2.7		-2.7		-0.1
Nov		-1.2		-0.9		0.0
Dec		0.6		0.5		2.5
Jan		-5.6		-5.9		-0.1
Feb		-1.0		-0.4		0.0
Mar		4.9		3.9		1.3
Cumulative						
Apr	2.1	1.0	0.2	1.0	0.0	0.0
May	3.1	1.6	1.2	1.9	0.0	0.0
Jun	4.6	3.3	3.1	3.5	0.0	0.0
Jul	2.8	1.4	1.5	1.8	0.1	0.1
Aug		2.0		3.3		1.5
Sep		3.1		4.7		1.5
Oct		0.4		2.0		1.4
Nov		-0.8		1.1		1.4
Dec		-0.2		1.6		3.8
Jan		-5.8		-4.2		3.8
Feb		-6.8		-4.6		3.7
Mar		-1.9		-0.7		5.0

Note: Figures for May, June and July in 1990-91 are forecasts