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PART C

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PART C

**BUDGET 1987 AUTUMN
STATEMENT**

PO -CH /NL/0015

PART C

PART C

DD's 25 years 23-3-95 Nazis.

SECRET

pub

FROM: MISS M E PEIRSON
DATE: 2 NOVEMBER 1987

MR A P HUDSON

cc Principal Private Secretary —
PS/Chief Secretary
Mr F E R Butler
Mr Scholar
Mr Turnbull
Mr R I G Allen
Ms Boys
Mr McIntyre
Miss O'Mara
Mr Gibson
Mr Tyrie
Mr Call

AUTUMN STATEMENT: ORAL STATEMENT, DRAFT OF 2 NOVEMBER

done | 1. Mr Turnbull kindly copied to me your minute and draft of today. I have the following comments: I am trying to get hold of DHSS to clear the paragraph on social security, and will let you know if any further changes are required as a result.

2. First, if I could make some suggestions on paragraphs which are none of my business:-

(i) paragraph 5: the drafting here leads to the expectation that the figure at the end of the paragraph will be higher than the $\pounds 1\text{bn}$ mentioned in para 4. People may think that the Chancellor has said $\pounds 1\frac{1}{2}\text{bn}$ in para 5. It might be best to delete "in excess of" and substitute "[a little] over", and to delete "overall" and to substitute "net".

(ii) Paragraph 31: if you make the amendment suggested by EB, ie to substitute "since current records began" for "on record", I think there is a danger of cries about the various changes that there have been to the method of recording unemployment.

3. Otherwise, I am content with paragraph 17 on health, but have the following suggestions to make on paragraph 22 on social

now cleared

security (subject, as I said, to anything DHSS may have to offer):-

- (i) In line 2, delete "spending" and insert "provision" (in social security, as in local authority spending, actual spending may well be very different from provision);
- (ii) In the second sentence, delete "in large part" and substitute (after "this is") "partly". Increased take-up cannot be given as the main reason.
- (iii) In the second sentence again, ~~after "means-tested"~~ delete "take-up of means-tested benefits" and insert "number of claimants of income-related and disability benefits". The increase in take-up of means-tested benefits is rather small in 1988-89 (as a contributory factor to DHSS's forecast), but increased take-up of disability benefits, which are not means-tested, is a bigger factor.

M.E.P.

MISS M E PEIRSON



C.

ORAL STATEMENT

1. Length is 1958 words, 14 $\frac{1}{2}$ minutes.
2. Quite a few comments, but nearly all on drafting & tone.
3. You asked about the sentence on capital expenditure in para 23. Andrew Turnbull explains that this is a custom-built definition, ~~words~~ which we have used for a few years now. ~~By~~ He reckons only about $\frac{1}{3}$ of it would be in the planning total; as you says, NI's capex is not, as such; and only net LA capex scores in the planning total.
4. Andrew would like to leave this sentence in, since the big investment programmes soften people up for price increases later! We used a similar formulation last year. Content?

Over

5. Andrew Turnbull would also prefer to use "national income", rather than "national output", for GDP. He thinks it's easier to talk about ~~about~~ spending as a share of income.

AT

2. 11.



FROM: A P HUDSON

DATE: 2 November 1987

cc Mr Mack

cc Miss Leison

Mr Gilmore

Mr Hartin

✓ PS/CHIEF SECRETARY

cc Financial Secretary Mr Robson
 - Paymaster General
 Economic Secretary
 ✓ Sir P Middleton
 - Sir T Burns
 ✓ Mr F E R Butler
 ✓ Mr Odling-Smee
 ✓ Mr Peretz
 ✓ Mr Sedgwick
 ✓ Mr Scholar
 ✓ Mr Turnbull
 ✓ Mr Gieve
 ✓ Miss O'Mara
 ✓ Mr R I G Allen
 ✓ Mr McIntyre (paras. 25-28 only)
 Ms C Evans
 ✓ Mr Cropper
 ✓ Mr Tyrie
 ✓ Mr Call
 ✓ Mr A C. S. Allen

AUTUMN STATEMENT: ORAL STATEMENT, DRAFT OF 2 NOVEMBER

... I attach a draft of the Oral Statement incorporating the amendments made by the Chancellor over the weekend.

2. Please could I have comments as soon as possible, ideally by lunchtime today.

3. The Chancellor has questioned the sentence in square brackets in paragraph 23, about nationalised industries' capital expenditure, since it is their EFLs which score as public expenditure. He would prefer to delete this. Does anybody feel strongly that a reference should be made to nationalised industries' investment programmes?

4. The Chancellor would like to see figures showing how manufacturing in 1988 is expected to compare with the previous peaks in 1973 and 1979, on annual, six monthly, and quarterly bases. Please could Mr Sedgwick supply these figures.

ANH

A P HUDSON

AUTUMN STATEMENT 1987: ORAL STATEMENT:
DRAFT OF 2 NOVEMBER

With permission, Mr Speaker, I should like to make a statement.

APH: Para 2 may be a bit of a mouthful. Either reinstate "makes proposals for NICs... sets out the forecast..."; or say "brings together three announcements, as usual;..."

2. I am laying before the House today an Autumn Statement which brings together the Government's outline public expenditure plans for the next three years and the expected outturn for this year, proposals for National Insurance contributions next year, and the forecast of economic prospects for 1988 required by the 1975 Industry

ACT:

AGT (see note) also suggests something on stock markets here.

[APH: I'm not sure this is right - it ~~is~~ looks, although the forecast has been turned upside down.]

Act. The forecast takes account of the recent fall in the stock market.

3. I turn first to the expected outturn for the current financial year, 1987-88.

4. The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's public expenditure White Paper. The main reason for this shortfall is higher capital receipts by local authorities and new towns. Total spending on programmes, apart from this, is expected to be ^{broadly} in line with plans.

AT (= A. Turnbull
of AGT = Tyrie)

5. Taking account of ~~debt interest~~ and other items not included in the planning total, the ^{net} [overall] shortfall on the expenditure side is likely to be ~~[a little over]~~ about [in excess of] £½ billion.

6. On the receipts side, total tax revenues are likely to exceed the Budget forecast by almost £2½ billion. This buoyancy reflects higher than forecast economic growth, greater than expected profitability, and an oil price above the \$15 a barrel assumed at the time of the Budget.

7. At that time, I set a Public Sector Borrowing Requirement for 1987-88 of some £4 billion, or 1 per cent of GDP. As a result of the higher tax revenues and lower spending, I now expect the PSBR for the current financial year to be only £1 billion, or ¼ per cent of GDP: the third successive year of significant undershoot. Privatisation proceeds have, of course, made an important contribution; but even if there had been no privatisation proceeds at all, ^{the expected PSBR this year would be} [this would imply] the lowest [PSBR] for 17 years.

8. I turn now to the public expenditure plans for the next three years.

9. Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national ^{income} [output] There is likely to be a

AGT: debt interest is unchanged
AT:
(difference is only £0.1 bn)

JOS has longer redraft to make same point.

P. Sedgwick ↓
(see note)

to low borrowing

JOS

AT (see my note)

further substantial reduction this year, which will make this the longest sustained fall [in public expenditure as a proportion of national ^{income} (output)] since the early 'fifties.

APH: omit?
A7

10. In July, Cabinet reaffirmed the objective of ensuring that public spending as a share of national ^{income} (output) continued to fall and in particular did not exceed the ratios published in the last White Paper. The plans that I am about to announce secure that objective.

A7

11. New planning totals have been set at £156½ billion for 1988-89 and £167 billion for 1989-90, increases of £2½ billion and £5½ billion respectively over the totals previously published. For 1990-91 the planning total has been set at £176 billion.

12. For the later years, I have judged it prudent to set aside larger Reserves within the planning totals than I have done previously. The Reserves will therefore rise from £3½ billion in 1988-89, to £7 billion in 1989-90 and £10½ billion in 1990-91.

PJC wonders if we should explain why larger Reserves have been set aside. General concern, or caution, or a particular reason?

13. The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from last year.

14. As I have indicated, these plans mean that public spending, even excluding privatisation proceeds, will continue to fall as a share of national ^{income} (output). From a

← RIGA
PJC is not clear whether the figures over the page are cum or ex privatisation proceeds.

level
~~peak~~ of nearly 47 per cent in 1982-83, it has come down to around 42½ per cent this year, and by 1990-91 will be down to 41½ per cent, the lowest since 1972-73. The new ratios are lower, for each year, than those published in the last White Paper.

progress
 15. This ~~achievement~~ ^{progress} has been founded on our success in reining back the rate of growth of public spending. In the 1960s and 1970s public spending grew by around 3 per cent a year in real terms. In our first Parliament the real rate of growth averaged 2½ per cent a year; in our second Parliament it was just under 1½ per cent; and in the succeeding four years, that is the current year plus the three Survey years, the real growth of public spending is planned to be ^{around} ~~below~~ 1½ per cent a year, well within the prospective growth of the economy as a whole.

16. But while public spending as a whole is growing more slowly, the substantial reduction in public borrowing this Government has brought about ^[is reducing] ~~has reduced~~ the ~~real~~ burden of debt interest payments, and thus ^{making} ~~made~~ more room for programme spending. [The Government has therefore again been able to provide additional resources for a number of ^(on) priority services. In each case, the figures I am about to give represent increases over ^{the plans} ~~those~~ in last year's public expenditure White Paper. ~~previously published for the years in question.~~

17. First, health. An extra £700 million is being provided for the National Health Service in England in

MCS

(peak was 75-6, 68½%)

RIGA

A7/C57

P. Sedgwick: debt "real" -
A7 see note.*
RIGA would shorten
point on debt interest.

FERB

1988-89, and an extra £800 million in 1989-90. On top of this the Health Service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

18. Second, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my ^{Rt Hon Friend} ~~BHF~~ the Home Secretary announced to the House in July. This will provide 4,200 extra places by 1993. ^{Provision for} Local authority spending on the police ^{has} ~~is~~ also ^{been} ~~being~~ increased significantly.

M. Hanting X

19. Third, education. Provision for local authority current spending has again been increased substantially. ~~And~~ In addition, an extra £60 million a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115 million in 1988-89 and by £130 million in 1989-90. There will also be an additional £45 million in 1988-89 and £65 million in 1989-90 for science.

APH

20. Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation, but ^{will also} provide additional resources ^h for housing associations, much of it to be used in conjunction with private finance. ~~Provision for Urban~~

APH

(Additional sums are being made available for the Housing Action Trusts and Urban Development Corporations to help tackle the problems of the Inner Cities.)

CS7

~~Development Corporations is being increased by~~
~~£65 million next year.~~

CST: I gather you agreed this at the bilateral.

22 ~~21~~. Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.

M. Lewison (MP)

21 22. There are also substantial increases in social security ^{provision} ~~spending~~, which has been increased by £1 billion

PJC

~~for~~ in 1988-89 and £1.9 billion ^{for} in 1989-90. ~~In large part,~~

MP:

This is ^{partly} because the ^{number of claimants of income-related and disability benefits} ~~take-up of means-tested benefits~~ is

CST

likely to be higher than was previously expected. It also takes account of the ^{operating of benefits announced by my Rt Hon Friend, the Secretary of State for Social Services, last week, including the} ~~decision announced last May to increase income-related benefits to reflect the average cost of compensating income support claimants for their average contribution to rates,~~ ~~cost to claimants of having to pay 20 per cent of their rates.~~

23. The additions to planned capital expenditure, taking all programmes together, amount to ^{about} ~~over~~ £1 billion in each of the next two years. [About half of this is for the nationalised industries, principally for the large scale investment programmes of the electricity and water industries.]

EB/AT

See note.

24. Further information about these and other changes ^{is} ~~are~~ contained in the printed Autumn Statement which will be available from the Vote Office as soon as I have sat down. Full details, together with information on running costs and manpower, will be given in the public expenditure White Paper early in the new year.

APH

x

25. I turn now to National Insurance contributions.

26. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my ^{RT Hon Friend} ~~RHP~~ the Secretary of State for Social Services made on 27 October.

27. The Lower Earnings Limit will be increased next April to £41 a week, in line with the single person's pension, and the Upper Earnings Limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent and 7 per cent bands will be raised to £70 and £105 respectively. The upper limit for the 9 per cent rate for employers will be raised to £155.

28. The taxpayer's contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced ^{from 7 per cent} (by 2 per cent) to 5 per cent, but this will not require any change in contribution rates. Thus, the main Class I contribution rates will [once again] remain unchanged, at 9 per cent for employees and 10.45 per cent for employers.

29. Finally, I turn to the Industry Act Forecast.

AG7 (see note) thinks something on the stock market is needed here. Could move 2nd sentence of para 33.

30. Growth this year looks to be turning out at 4 per cent, compared with the 3 per cent growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981, and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry has done particularly well, with output rising by 5 per cent.

31. This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago - the largest annual fall since current records began. [on record] Indeed, unemployment has been falling faster in the UK than in any other major country.

EB
M. Pearson points out this will get cries about fiddling. I agree.

32. As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see no need to amend my Budget forecast of a modest current account [payments] deficit of some £2½ billion, or about ½ per cent of GDP.

APH: ?

33. Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. The full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets insofar as that is possible at this early stage. This is clearly a time when economic forecasting is a more than usually hazardous business. ~~But whatever~~

PJC.

MCall
(APH: Need "But...", at least.)

happens, the strength of the British economy, and of our public finances, puts us in the best possible position to meet any difficulties that may arise. ^{ahead} [weather any storm that may be gathering.]]

RIGA
MCS
AGT wd omit last 4 words.

MCS/RIGA:

And we shall play our full part in international efforts to minimise damage to the world economy.

P. Sedgwick.

AGT suggests somewhere (see note), a short para on importance of containing unit labour costs.

MCS/DLCP

34. Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North Sea oil output now declining, this implies 3 per cent growth for the non-North Sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. ²/₃ Business investment ~~outside the North Sea~~ is likely to be particularly strong, rising by 5½ per cent. ²/₃

35. With the UK continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¼ per cent of GDP.

36. Inflation may rise a little next year, reaching 4½ per cent in the fourth quarter, by which time it should be on a downward trend again. The ^{defeat} ~~suppression~~ of inflation remains at the heart of the Government's economic strategy.

37. With continuing healthy growth in 1988, unemployment should continue to fall.

38. The progress and prospects I have described demonstrate once again the soundness of the policies we have followed, over the past two Parliaments, ^{We} ~~and~~ will continue to pursue ^{these policies} _h in our third. Despite the recent deterioration in the world economic climate, about which I have frequently warned in the past, and which will now need particularly careful handling, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.

APH:

N.B. MCS
fall in the
stock market,
which risks a

MCS thinks this doesn't make clear
that the prospect depends on the
"careful handling".



PWP
AS
Cover
note
Legend

AS now state L,
as and, herewith.
Pst have typed up a
check (a clear copy
sent to me ASAP).

2. Pst let us know
~~how~~ str figs show
how mfg in 1988 is
expected to compare with
previous states in 1973 &
1979, on annual, six-month
& quarterly basis.
M.

AUTUMN STATEMENT 1987: ORAL STATEMENT:DRAFT OF ~~30 OCTOBER~~ 2 NOV

With permission, Mr Speaker, I should like to make a statement.

2. I am laying before the House today ^{an} the Autumn Statement which brings together the Government's outline public expenditure plans for the next three years, ^(and the expected outturn for this year) makes proposals for National Insurance contributions next year, and ~~sets out~~ the forecast of economic prospects for 1988 required by the 1975 Industry Act.

Public Expenditure in 1987-88

3. I turn first to the expected outturn for the current financial year, 1987-88.

4. The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's public expenditure White Paper. The main reason for this ^{shortfall} is higher capital receipts by local authorities and new towns. ~~Spending on other programmes, taken together, is~~ ^{Total spending on programmes, apart from this, is} expected to be in line with plans.

5. Taking account of debt interest and other items not included in the planning total, the ~~total~~ ^{Overall} shortfall on the expenditure side is likely to be ~~about~~ ^(in excess of) £½ billion.

See P. Sedgwick note, below.

1987-88 revenues

6. On the receipts side, ~~non-oil~~ ^{tax} revenues are benefitting from the strong growth of the economy and seem likely to be ~~nearly~~ ^{getting on for} £2 billion higher than I expected at the time of the Budget. Corporation tax revenues have risen strongly as a result of the greatly increased profitability of industry. Income tax, national insurance contributions and VAT are also buoyant. North Sea revenues are likely to be over £½ billion higher than expected, largely because the oil price has been above the \$15 assumed in the Budget forecast.

For this & other figures in paras 6-7, see Sedgwick note again. This £2bn is a pretty heroic rounding.

1987-88 PSBR

7. The total increase in tax revenues is thus nearly £2½ billion, and this, together with the reduction of £½ billion in expenditure, means that I now expect the Public Sector Borrowing Requirement for the current financial year to be about £1 billion, or ¼ per cent of GDP. This is some £3 billion lower than the figure I set in the Budget, and lower than in all but two years since 1950.

in sh^l (A) low

Public Expenditure plans

8. I turn now to the public expenditure plans for the next three years.

9. Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national output. There is likely to be a further substantial reduction this year, which will make this the longest sustained fall ^{in public expenditure} since the War-time economy was unwound. *as a proportion of national output since the early 1970s.*

10. In July, ~~the~~ Cabinet reaffirmed the objective of ensuring that public spending as a share of national output ^{continued to fall and in particular did not exceed the ratios published in the last White Paper.} was held at or below the ratios in the last White Paper. The plans that I am about to announce ~~will not~~ ^{will} ~~only~~ secure that objective, ~~but will ensure that the share is actually lower than in the White Paper.~~

Unrounded figures; pencil

11. New planning totals have been set at ~~£156~~ ^{£156½} billion for 1988-89 and ~~£167~~ ^{£167} billion for 1989-90, increases of ~~£2½~~ ^{£2½} billion and ~~£5½~~ ^{£5½} billion ^{respectively} over the totals previously published. For 1990-91 the planning total has been set at ~~£176~~ ^{£176} billion.

12. For the later years, I have judged it prudent to set aside larger Reserves within the planning totals than I have done previously. The Reserves will therefore rise from £3½ billion in 1988-89, to £7 billion in 1989-90 and £10½ billion in 1990-91.

13. ~~The planning totals incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from last year.~~ *also* / get

As I have indicated,
 14. ~~These plans mean that public spending, excluding privatisation proceeds, will continue to fall as a share of national output. From the peak of nearly 47 per cent in 1982-83, it has come down to around 42½ per cent this year, and by 1990-91 will be down to 41¼ per cent, the lowest since 1972-73. The new ratios are lower, in each year, than those published in the last White Paper.~~ *Evln*

15. This achievement has been founded on our success in reining back the rate of growth of ~~public spending~~. In the 1960s and 1970s public spending grew by around 3 per cent a year in real terms. In our first Parliament ~~[the four years to 1982-83]~~ *the real rate of growth averaged* ~~the growth was 2¼ per cent~~ *a year;* in our second Parliament ~~[the four years to 1986-87]~~ *it was* just under 1½ per cent; and in the succeeding four years, that is the current year plus the three Survey years, the ~~growth~~ *real* ~~is planned to be less than 1¼ per cent a year, well within the prospective growth of the economy as a whole.~~ *public sp* *below* *of*

16. But while public spending as a whole is growing more slowly, the substantial reduction in public borrowing this Government has brought about has reduced ~~debt interest payments, and thus made more room for programme spending. The Government has therefore again been able~~ *(the real burden of*

to provide additional resources for a number of priority services. *In each case, the figures I am able to give represent increases over those previously published plans for the 10 years in question.*

Possible crisis of "What about Scotland?" The trouble is, we don't know. Only real answer would be a para about the territories generally.

17. First, health. An extra £700 million is being provided for the National Health Service in England in 1988-89, and an extra £800 million in 1989-90. On top of this the Health Service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

18. Second, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my RHF the Home Secretary announced to the House in July. This will provide an extra 4,200 places by 1993. Local authority spending on the police is also being increased significantly.

19. Third, education. Provision for local authority current spending has again been increased substantially. And in addition, an extra £60 million a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115 million in 1988-89 and ^{by} £130 million in 1989-90. ~~[in part to achieve the restructuring of academic pay that has already been announced.]~~ There will ^{also} be ~~a~~ ^{an additional} further £45 million in 1988-89 and £65 million in 1989-90 for science.

SECRET

20. Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation, but provide additional resources for housing associations, much of it to be used in conjunction with private finance. ~~Provision for~~ ~~£5 million next year,~~ ~~rising to £50 million the year after, is being made available for Housing Action Trusts.]~~ ~~[Provision for~~ Urban Development Corporations is being increased by £65 million next year.†

~~Spending on~~ 21. ~~Provision for~~ defence ~~has been~~ increased by £230 million in 1988-89 and £490 million in 1989-90. ~~[an increase of some 2 per cent in cash terms over previous plans.]~~

22. There are also substantial increases in social security spending, ~~where~~ ^{which} ~~provision~~ has been increased by £1 billion in 1988-89 and £1.9 billion in 1989-90. In part, this is because the take-up of means-tested benefits is ^{higher than} ~~higher than~~ ^{was planned} ~~expected.~~ † It also takes account of the decision announced last May to increase income-related benefits to reflect the average cost to claimants of ^{having to pay} ~~paying~~ (20 per cent of ^{them} ~~rates.~~ It also ~~reflects the statement on benefits made by my RHF the Secretary of State for Social Services on 27 October.]~~

23. ~~I have already mentioned some of the increases in provision for local authority current spending. In~~

total, provision has been increased by £1 billion in 1988-89 and £1½ billion in 1989-90, as my RHF the Secretary of State for the Environment announced in July.

24. ~~Taking all the programmes together,~~ ^{take all programmes together,} the additions to planned capital expenditure, amount to over £1 billion in each of the next two years. [About half of this is for the nationalised industries, principally for the large scale investment programmes of the electricity and water industries.]

What does this mean?
NI Capex is not PX - only those EPZs. Since 1988 deliv.

25. Further information about these and other changes are contained in the printed Autumn Statement which will be available ~~shortly~~ ^{from} in the Vote Office. Full details, ^{as soon as I have sat down.} together with information on running costs and manpower will be given in the public expenditure White Paper early in the ~~New Year.~~

National Insurance contributions

26. I turn now to National Insurance contributions.

27. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my RHF the Secretary of State for Social Services made on 27 October.

28. The Lower Earnings Limit will be increased next April to £41 a week, in line with the single person's pension, and the Upper Earnings Limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent and 7 per cent bands will be raised to £70 and £105 respectively. The upper limit for the 9 per cent rate for employers will be raised to £155.

29. The taxpayer's contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced by 2 per cent to 5 per cent, but this will not require any change in contribution rates. Thus, once again remain the main Class I contribution rates will be unchanged at 9 per cent for employees and 10.45 per cent for employers.

Industry Act Forecast

30. Finally, I turn to the Industry Act Forecast.

31. Growth this year looks to be turning out at 4 per cent, compared with the 3 per cent growth forecast at the time of the budget. cent, above the trend of the steady upswing which began in 1981, and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry has done particularly well, with output rising by 5 per cent.

This is WTM

32. This strong performance has led to a substantial fall in unemployment, which is now more than over 400,000 lower

than a year ago - the largest ^{annual} fall on record. ^{indeed,}
Unemployment is ~~falling~~ ^{has been falling} faster here ^{in the UK} than in any other major country.

33. As I ~~expected~~ ^{forecast at the time of the Budget,} at Budget time, inflation in the fourth quarter of this year is likely to be 4 per cent. ^{I also see no need at present to amend my Budget forecast}
~~The current account of the balance of payments is likely to show a modest deficit this year of £2½ billion, or about ½ per cent of GDP, again in line with the Budget forecast.~~ ^{of a current account payments deficit of some}

Model

34. Looking ahead to 1988, the prospect is for a continuation of the steady growth, with low inflation, ^{enjoyed}

that we have now seen for over five years. The ^{full} Forecast ^{I am} takes account ^{of the recent falls in the stock market.}

^{Publicly} ^{board} ^{takes} ^{into} ^{account} ^{the} ^{likely} ^{implications} ^{of} ^{the} ^{recent} ^{falls} ⁱⁿ ^{the} ^{stock} ^{market.} ^{World}
~~It is clearly too early to say what the precise effects will be, and the uncertainty resulting from the stock market fall adds to the difficulties of making forecasts.~~ ^{It is clearly too early to say what the precise effects will be, and the uncertainty resulting from the stock market fall adds to the difficulties of making forecasts.}

^{But} ^{the} ^{strength} ^{of} ^{the} ^{British} ^{economy,} ^{puts} ^{us} ⁱⁿ ^{an} <sup>en-
vi-
able</sup> ^{position} ^{to} ^{weather} ^{any} ^{storm,} ^{that} ^{may} ^{be} ^{gathering.}

^{Subject} ^{to} ^{no} <sup>un-
for-
seen</sup> ^{circumstances} ^{to} ^{which} ^I ^{have} ^{just} ^{referred,}
35. Growth next year is likely to be around 2½ per cent. ^{The economy is forecast to grow next year by around 2½ per cent.}

Domestic demand should continue to expand, though at a slightly lower rate than this year, with ^{both} consumer spending and investment growing at ^a similar ^{pace.} ^{likely}

Business investment outside the North Sea is expected to be particularly strong, rising by 5½ per cent.

With North Sea oil
Output has
declined, this implies
a 3 pct cum growth
for the non-North Sea
economy as a
whole.

36. With the UK continuing to grow faster than other countries, ~~there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¾ per cent of GDP.~~

(and the oil surplus decline) major

37. Inflation, ~~as measured by the retail price index, may be a little higher next year, than this, at 4½ per cent in the fourth quarter, but I expect it to be on a downward trend by the end of next year. The control and reduction of inflation remains at the heart of the Government's economic strategy.~~

not) reaching by which time it should be on a downward trend again. The suppression of inflation

38. With continuing healthy growth, ~~the prospect is good for the fall in unemployment to carry on next year, provided always that labour costs remain under control.~~

In 1988, unemployment should continue to fall.

Peroration

39. ~~Mr Speaker, the progress and prospects I have described demonstrate once again the soundness of the policies we have followed, now over two Parliaments. This first Autumn Statement of our third term offers a clear prospect of further sustained growth and steadily rising living standards, with unemployment continuing to fall. We have brought this about by promoting enterprise, with sound money and with strong public finances. We will stick to these policies.~~

will continue to pursue in our third term. Despite the sharp downturn in the world economic climate, about which I have expressed frequently

And that is what we will stick to.

Wanted to be part, and which would be particularly careful hand, no prospect I am able to offer to those who



Mr
Thanks
for below.

C.

ORAL STATEMENT

1. I attach a redraft, which both Alex & I have worked on.
2. I have annotated a few points you will want to consider. There is ~~then~~ a clean copy ~~at the~~ also in the folder.
3. ~~On~~ ~~the~~ ~~Latin~~ ~~this~~ ~~evening~~, one fairly big change occurred to ~~me~~ ~~is~~ ~~no~~.
3. One significant change from last year, & the original draft. I have pulled out three priority programmes - health, law & order, education - and grouped under those heads all the increases, including those formerly mentioned under LA current. I feel quite strongly that this is a simpler & better presentation. It runs into the problem we were discussing this afternoon, of taking credit for LA overspending, but we might just as well - K. Baker (for example) had no inhibitions last year. I hope this presentation won't ruffle feathers in GE - it occurred to me too late to ask Andrew Turnbull.
4. About 15 mins' worth here; last year was 18 minutes, but you had to cover oil tax changes & the following year's PSBR.

AMH

31. 10.

FROM: P N SEDGWICK

DATE: 30 OCTOBER 1971

MR HUDSON

cc Sir T Burns
Mr Scholar
Mr Turnbull
Mr Mowl

AS: ORAL STATEMENT

I have a few comments on the version of the oral statement you circulated today.

2. Paragraph 5

This says that the total shortfall on the expenditure side is about £½ billion. This is derived as follows

Changes since FSBR	

£ billion	
GGE	- 0.7
(of which planning total)	(- 1.0)
Public corporations market and overseas borrowing	+ 0.1
Total expenditure side	- 0.6 ie about £½ billion

2. The "total expenditure side" figure cannot be read of the tables in chapters 1 or 2 directly.

P. Sedgwick didn't think this mattered, but thought you should be aware of it.

4. Paragraph 6

Change in receipts since FSBR:

£ billion	
North Sea	+ 0.6
Non-North Sea	+ 1.7
Total general government	+ 2.3

Non-oil revenues are therefore about £1¾ billion higher than

expected at the time of Budget, not about £2 billion.

5. Paragraph 35

We have adjusted down the growth of domestic demand. Replace the second sentence ~~with~~

Domestic demand should continue to expand, though at a slightly lower rate than this year, with both consumers' expenditure and fixed investment growth^{ing} at similar rates.

P.N.J

P N SEDGWICK

PWP

FROM: P N SEDGWICK
DATE: 2 NOVEMBER 1987

MR HUDSON

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Odling-Smee
Mr Scholar
Mr Turnbull
Mr Bottrill
Mr Hibberd
Mr Mowl
Miss O'Mara
Mr R Allen
Ms C Evans
Mr Cropper
Mr Tyrie
Mr Call**AS: ORAL STATEMENT DRAFT OF NOVEMBER 2**

I have a few comments on the version of the oral statement you circulated today.

Paragraph 7

Taken together the second and third sentences might be taken to imply that privatisation proceeds have contributed to the three undershoots of the PSBR. This is not the case. (In 1986-87 privatisation proceeds were actually £400m. lower than expected at the time of the 1986 budget : see table 1.2 of the 1987 FSBR.) I suggest that the third sentence is redrafted as follows.

"Privatisation proceeds have, of course, made an important contribution to low borrowing...."

Paragraph 16

The concept of the 'real burden' of debt interest payments referred to in the first sentence is ambiguous. It could be a reference to the level of (gross) 'interest payments' either in real terms or as a share of money GDP. The latter method of deflation is normally used when talking about the tax burden. But the context in the oral statement (ie following on from the discussion of real growth rates in para.15) and use of the word 'real' suggests that it is the former concept which is meant here.

As the attached table shows, the level of real interest payments peaked as recently as 1985-86 while the peak of interest payments as a share of GDP peaked earlier in 1981-82. Rather than draw attention to a concept whose behaviour is not as favourable, and one which is not fully consistent with conventions used for the tax burden, it would be better to omit the word "real" from this sentence.

Paragraph 34

Given the low weights of North Sea investment in the total, the last sentence is true even with the words "outside the North Sea" deleted. I suggest that you make this change.

Manufacturing output

I attach a note by Mr Brooks comparing recent experience (with 1973 and 1979. *with IAF present*

(P.N.)
P N SEDGWICK

(i)

General government debt interest payments

	Cash £ billion	Real terms (1986-87 prices) £ billion	Ratio to GDP (per cent)
1963-64	1.2	9.1	3 $\frac{3}{4}$
1964-65	1.3	9.0	3 $\frac{3}{4}$
1965-66	1.4	9.2	3 $\frac{3}{4}$
1966-67	1.5	9.7	3 $\frac{3}{4}$
1967-68	1.7	10.5	4
1968-69	1.8	10.9	4
1969-70	1.9	11.0	4
1970-71	2.0	10.5	3 $\frac{3}{4}$
1971-72	2.2	10.5	3 $\frac{1}{2}$
1972-73	2.3	10.4	3 $\frac{1}{2}$
1973-74	2.9	12.2	4
1974-75	3.6	12.6	4
1975-76	4.5	12.5	4
1976-77	5.6	13.7	4 $\frac{1}{4}$
1977-78	6.4	13.9	4 $\frac{1}{4}$
1978-79	7.4	14.4	4 $\frac{1}{4}$
1979-80	9.4	15.7	4 $\frac{1}{2}$
1980-81	11.4	15.9	4 $\frac{3}{4}$
1981-82	13.3	17.0	5 $\frac{1}{4}$ (peak)
1982-83	13.8	16.5	5
1983-84	14.5	16.6	4 $\frac{3}{4}$
1984-85	16.1	17.5	5
1985-86	17.6	18.2 (peak)	5
1986-87	17.4	17.4	4 $\frac{1}{2}$
1987-88	17.8 *	17.1	4 $\frac{1}{4}$
1988-89	18 *	17	4
1989-90	18 *	16	3 $\frac{3}{4}$
1990-91	18 *	15	3 $\frac{1}{2}$

*projection

SECRET

2
3

FROM: A G TYRIE

DATE: 2 NOVEMBER 1987

PS/CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir Terence Burns
Mr F E R Butler
Mr J Odling-Smee
Mr D Peretz
Mr K Sedgwick
Mr M Scholar
Mr A Turnbull
Mr J Gieve
Miss M O'Mara
Mr R I G Allen
Mr P Macintyre
Mr A Hudson
Ms C Evans
Mr P Cropper
Mr M Call

AUTUMN STATEMENT: ORAL STATEMENT

Some quick comments on the draft of 2 November.

i. Something on the stock markets is needed early on, possibly between paragraphs 2 and 3. Alternatively, (possibly additionally) paragraph 33, from the second sentence 'The full forecast ...' to the end, could be moved to head the section on the Industry Act Forecast after paragraph 29.

ii. The last four words of paragraph 33 are better deleted. They imply that the Chancellor thinks we haven't seen the half of it yet.

iii. Paragraph 5 is confusing. Debt interest does not reduce the overall shortfall of £1 billion mentioned in the previous paragraph, it is unchanged. The reduction of £½ billion is all down to recondite national accounts adjustments. I suggest deleting 'debt interest' and we can leave 'other items' unexplained!

SECRET

iv. Andrew Turnbull tells me that we are leaving Class 1 NICs unchanged for the fifth year in a row. I suggest that paragraph 28 reads: '... Class 1 contribution rates will remain unchanged for the fifth year running at 9 per cent ...' *Definitely a bull point.*

?
But NB still well
ahead of what we inherited.

v. Might it be worth including a short paragraph on the contribution of unit labour costs to the improved performance of manufacturing? The trend of lower pay settlements in 1986 must be continued and not reversed etc.

AGT.

A G TYRIE

mf

FROM: MISS M O'MARA

DATE: 2 NOVEMBER 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr R I G Allen
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
B/002

AUTUMN STATEMENT AIDE MEMOIRE: PUBLIC EXPENDITURE

I attach an abstract of the Autumn Statement brief which seeks to identify the bull points on public expenditure generally and on some of the individual programmes, together with some of the more obvious elephant traps. On the last, I am grateful to the Chief Secretary for highlighting a number of awkward issues.

2. We will check through the figures again tomorrow when we have the full brief easily to hand.

Ch
3 weak spots - I'd propose

*① Electricity prices. You can't
Just (as in brief) stall by saying
all a matter for electrics industry
in light of EPR & financial targets*

*② Regional policy. This is one
where you may have to rest a decision
not yet taken, but a wordier line might
help*

*③ LA capital spending (especially housing)
Shifting sands of LA capital controls make it
very unclear where spending is occurring or
decreasing. I'll get a table*

MOM
MISS M O'MARA

** plus RHA
use of receipts, &
indeed LA's too)*

AA

PUBLIC EXPENDITURE

General

Planning totals

1988-89	1989-90	£billion 1990-91
156.8 (+2.6)	167.1 (+5.6)	176.1

Increase over 1987 PEWP in brackets

1987-88 estimated outturn: £147.6 billion. (Underspend of £1 billion on 1987 PEWP and FSBR, more than accounted for by higher LA and New Towns capital receipts.)

Reserves

1988-89	1989-90	£billion 1990-91
3.5	7.0	10.5

Reserves for two later years higher than for any year since introduction of cash planning.

Privatisation proceeds

£5 billion in all 3 years, as in 1987 PEWP.

Effect of BP market support operation: Privatisation proceeds estimate of £5 billion in 1987-88 assumes full proceeds of first instalment of BP share offer. If some of BP shares were purchased by Bank of England Issue Department and still held by it at end of financial year, effect would be to reduce privatisation proceeds and increase planning total, GGE and PSBR by same amount.

Growth of GGE

Real expenditure growth on declining trend

GGE (excluding privatisation proceeds) to increase by $1\frac{1}{4}$ per cent a year 1986-87 to 1990-91.

Compares with

3 per cent in decade to 1978-79

$2\frac{1}{4}$ per cent in first Parliament (1978-79 to 1982-83)

$1\frac{1}{4}$ per cent in second Parliament (1982-83 to 1986-87).

GGE for 4 years from 1986-87 growing at faster real annual average rate ($1\frac{1}{4}$ per cent) than in 1987 PEWP (1 per cent).

BUT GGE as percentage of GDP significantly lower than in 1987 PEWP over same period.

Increase in plans lower than increase in money GDP.

Big increase in spending in 1989-90 (real increase in planning total of 2.9 per cent)

- Year on year movements bound to vary (EC contribution in 1989-90 £700 million higher than in 1988-89). So look at trend.
- Normally accused of offering restraint in future but increases today. This time, underspending in current year, with large reduction in GDP ratio in 1987-88 and 1988-89, but prudent provision for future years, including large Reserves.

Future figures unrealistic

- Despite likely underspending of £3.5 billion Reserve in 1987-88, Government retaining same figure for 1988-89. For later years, larger Reserve than in any year since cash planning introduced.
- To extent unemployment falls below 2.6 million conventional assumption for next 3 years, could be social security saving.
- LA figures reflect 1987-88 budgets and allow for continuing increase.
- Average overspend in last 5 years compared with previous year's PEWP only $\frac{1}{4}$ per cent ($\frac{1}{4}$ per cent excluding coal strike year).

CG spending rising faster than LA spending

- CG spending includes demand-led social security and enormous health and defence programmes. $\frac{1}{2}$ per cent increase on social security programme worth £ $\frac{1}{4}$ billion.
- LA current spending will have grown 5 per cent a year in real terms between 1985-86 and 1987-88 - much faster than CG. (Total LA spending grown more slowly because of high receipts from council house sales.)

Comparison with Labour Government

- 13 per cent increase 1974-75 on 1973-74
- Led to IMF and savage cuts.
- Total spending 4 per cent lower in real terms in 1978-79 than 1976-77.

So highly volatile.

Ratios

CGE (excluding privatisation proceeds) as percentage of GDP

1987-88	1988-89	1989-90	1990-91
42½	42	41½	41½

- Peaked under this Government at 46½ per cent (1982-83). (48½ per cent in 1987-76.)
- Lower path than implied in 1987 PEWP.
- Growth in expenditure well within growth of economy as whole.
- 41½ per cent ratio in 1990-91 will be lowest since 1972-73.

Only tiny fall in GDP ratio after 1987-88

Still 1½ percentage point fall in ratio over 3 years, on top of step change in 1987-88.

Main changes since 1987 PEWP

	1988-89	1989-90	£million
<u>Increases</u>			
Social security	+1,000	+1,900	Mainly estimating increases.
Health Service (England)	+ 700	+ 790	NHS only - grouped with personal social services in AS tables.
Education	+ 630	+ 800	DES programme (mainly England). Includes universities and science and LA spending on schools and colleges.
Law and order	+ 360	+ 450	Home Office programme (generally E&W). Includes prisons and LA spending on police.
Defence	+ 230	+ 490	
<u>Decreases</u>			
Agriculture	- 180	- 160	Lower cost of market support under CAP.
Housing	- 10	- 100	Higher capital receipts.
FCO (Diplomatic Wing)	- 10	- 10	Reduced cost of overseas operations.

Increases

(a) Government priorities

Health

Bull points

- Provision for Health and Personal Social Services up 6 per cent in 1988-89 on estimated outturn for 1987-88 (4 per cent up on 1987 PEWP plans for 1988-89). Provision in 1989-90 up 4½ per cent on PEWP plans.
- Largest ever increase for NHS (£700 million) in 1988-89. Spending on NHS up over 31 per cent in real terms between 1978-79 and 1987-88.
- Additional provision for Hospital and Community Health Services will meet consequential costs of 1987 pay awards and increased demand, contribute to extra costs of AIDS and allow for service improvements.
- Plans allow for expected demand costs of Family Practitioner Services to be met in full.
- Bridging fund: Extended for 2 more years (£15 million in both 1987-88 and 1988-89) to help overcome transitional resource allocation problems in those regions where spending growing at less than national average rate.
- Hospital and Community Health Services capital spending up 44 per cent in real terms 1978-79 to 1987-88 (fell 30 per cent under Labour Government). £3 billion building programme: (over 100 of 480 schemes currently under way will be completed by 1991.) Spending supplemented by sales of surplus land and buildings (£200 million in 1987-88).
- Since 1979, number of directly employed doctors and dentists in England up over 43,000 (September 1986), nurses and midwives up nearly 54,000 (March 1987).
- Record number of patients being treated. In 1986, as compared with 1985, over 1 million (19 per cent) extra in-patient cases, 490,000 (87 per cent) more day cases, and 3.75 million (11 per cent) more outpatient attendances.

Awkward questions

Only 2.1 per cent real terms growth in health service in 1988-89

But increase in 1987-88 of 4 per cent in real terms was much higher than 1987 PEWP plans (2.4 per cent).

Health costs rise faster than GDP deflator

GDP deflator more relevant because measures cost of programme to economy. But on top of published net provision, health authorities can retain benefit from cost improvement programmes (£150 million in 1987-88 alone), income generation (eg franchising for shops on hospital premises) and other income (about £90 million in 1988-89), mainly from private patients' charges.

Charges

- (a) Existing: Matter for Secretary of State. But no responsible Government can rule out any alterations for ever.
- (b) New: Wait for White Paper on Primary Health Care later this month.

AIDS

Estimate RHAs will spend £30 million in 1987-88 of which Government making £12 million available centrally to health authorities.

Additional Government contribution of £50 million to health authorities in 1988-89.

NB Additional £6 million in 1988-89 and £8 million in 1989-90 to MRC for AIDS research announced last winter.

Waiting lists: Provision to help reduce lists extended to 1989-90 and 1990-91, with additional £5 million in 1988-89.

Education

Bull points

- Central Government provision for 1988-89 7.8 per cent higher than PEWP plans; and 3.9 per cent higher in real terms than 1987-88 estimated outturn. Future years follow broadly same pattern as 1988-89.
- LA current: Provision for real increases in spending on books and equipment (full allowance for GCSE implications) and repairs and maintenance; additions for secondary school libraries and for meeting demands in further and higher education.
- National curriculum: New provision of £9 million in 1988-89, rising to £33 million by 1990-91, to support introduction and finance assessment and testing.
- Maintained sector capital: Increase of £60 million in 1988-89 over PEWP allows 24 per cent increase in capital allocations for LEAs over 1987-88 levels. Together with provision agreed in 1987 PEWP, will allow £250 million programme (1988-89) of improvements to LA and voluntary school buildings, making significant contribution to eliminating improvements backlog.
- Universities: Additional provision of £56 million (1988-89) and £71 million (1989-90) to cover academic pay restructuring settlement, plus £61 million (1988-89) and £60 million (1989-90) for restructuring fund. Provision in 1990-91 7 per cent higher in real terms than in 1986-87.
- Polytechnics and colleges: 9 per cent increase in Advanced Further Education Quantum over 1987-88 Quantum.
- Science: Addition of £47 million in 1988-89 over PEWP (1.3 per cent real) and £65 million in 1989-90. 1988-89 planned provision at all-time peak in real terms (up 13.7 per cent real from 1981-82 low).

Awkward questions

No real increase in 1988-89 on estimated 1987-88 outturn

- LAs spent above planned level in 1987-88. Reduces increase between 1987-88 estimated outturn and 1988-89 plans.

- 1987-88 spending also inflated by back pay for teachers relating to 1986-87. Real increase would have been 1.2 per cent higher if paid in year in which accrued.
- But still 3.9 per cent real increase for CG education expenditure between 1987-88 and 1988-89. Clear reflection of Government's policies.

Government berating LAs for overspending but claiming credit for increasing education spending

Provision in plans reflects Government decisions; not simply validating LA pressures. But equally true that LAs could secure far better value for money. Audit Commission identified potential savings on LA current education spending of £ $\frac{1}{4}$ -1 billion, including most recently £500-700 million a year from rationalising provision in response to falling secondary school rolls.

Law and order

Bull points

- Spending set to increase 65 per cent 1978-79 to 1990-91. Provision broadly level in real terms over next 3 years.
- Increased provision for police (£140 million in 1988-89; £280 million in 1989-90). Allows for further 800 extra officers in 1988-89 (300 in Metropolitan Police). (Since 1979, increase in police manpower of 18,500, of which 11,800 are extra officers.)
- Increase provision for prison building (£60 million in 1988-89; £92 million in 1989-90) allows 77 per cent real terms growth 1987-88 to 1990-91 for prison building programme. 4,200 additional prison places to be provided by 1993. Provision also for accelerating existing programme of 20 new prisons.
- Increased provision for fight against drugs (£3 million in each of next two years); crime prevention (£1 million in each of next two years); National Drugs Intelligence Unit; establishment of new national crime prevention organisation.

Awkward question

Need for extra prison staffing?

Existing provision allows for recruitment of extra staff to man new accommodation. 750 basic grade extra staff being recruited in 1987-88, plus greater use of prison auxiliaries and night patrols. Extra cost will be met from savings obtained by more efficient working practices introduced as result of "Fresh Start".

Defence

- Provision increase by £230 million (1988-89) and £419 million (1989-90) to allow some greater scope for dealing with pressures on programme, following end of UK's period of commitment to NATO real growth target.
- Over period of commitment to NATO target (1978-79 to 1985-86), real increase of about 28 per cent in programme.
- In absolute terms and per head, level of UK defence expenditure among highest in Western Europe.
- As proportion of GDP, UK defence expenditure second only to US among major NATO allies.

On NATO definitions, UK spends higher proportion of defence budget on equipment than any European member of NATO.

Awkward questions

Increases in provision show earlier plans misconceived?

Marginal adjustment only - additions less than 2 per cent of cash provision on average in two years 1988-89 and 1989-90.

Defence review?

Will still need to pursue value for money and make difficult choices on defence priorities. But nothing new.

Trident

Nothing new in fitting large procurement programmes into defence budget. Trident smaller than Tornado aircraft programme. Expenditure on Trident will be spread over 18-20 years. Accounts on average for only about 3 per cent of overall defence budget and about 6 per cent of equipment budget. Current estimated cost less than £10 billion. But over 18-20 year procurement period, UK will be spending total of about £150 billion on equipment.

Inner cities

Bull points

- DOE urban block total expenditure up £50 million a year on plans for both 1988-89 and 1989-90. Includes increase for UDCs of nearly £70 million a year on 1987 PEWP plans for both 1988-89 and 1989-90.
- Urban programme expenditure in England increased over 70 per cent in real terms 1978-79 to 1987-88. Total urban block provision in 1988-89 nearly £500 million - more than double amount in real terms in 1978-79.

Awkward question

Fall in Urban Programme and Derelict Land Grant provision shows lack of Government concern about inner cities

- Government has increased inner cities resources on DOE programmes £50 million a year in next two years compared with plans.
- Always recognised UDCs would substitute for some existing programmes eg DLG. Modest switch represents change in agent, not activity.
- Programmes will still be substantial, averaging nearly £300 million a year.

(b) Increases over which Government has little influence

Local authorities

Current spending

- In 1987-88 up 3.7 per cent above 1987 PEWP plans. Provision for 1988-89 up 3.9 per cent on LAs' 1987-88 budgets (slightly below GDP deflator).
- Provision for 1989-90 and 1990-91 uprates England's provision by GDP deflator and adds comparable sums to 1987 PEWP plans for Scotland and Wales under block budget rules.

Awkward questions

Overspending inevitable in 1988-89?

No.

[??!]

- After 11 per cent real increase in spending on average in GB in two years, no need for further real increase. LAs must get grip on pay and manpower (80 per cent of current spending).
- 1987, reform of teachers' pay entailed increase of 16.4 per cent. Should be much lower in 1988-89 because Interim Advisory Committee remit allows for increase of only £300 million (included in provision).
- Tougher RSG settlement for 1988-89 will discourage spending. (Grant up 6.2 per cent compared with 9.6 per cent in 1987-88.)
- As in past, LAs will lose grant if spend above settlement.
- Efficiency savings available of up to £2 billion identified by Audit Commission eg £250 million in central purchasing arrangements, £140 million in transport management. LAs can make further savings through contracting out.

Government validating excessive LA budgets?

No. Government bound to take account of LAs' expenditure in overall plans. But does not endorse overspending and will not bail out ratepayer in high-spending areas. LAs lose grant if they spend up. (English LAs losing £265 million in 1987-88.)

Rates

Rises in 1988-89 matter for LAs. But should be low, broadly in line with inflation if LAs spend in line with plans.

(ii) Capital spending

Underspending of £½ billion in 1987-88. For 1988-89, provision of £6.9 billion made for gross capital spending to continue broadly at level of 1987-88 outturn. For 1989-90 and 1990-91, gross provision of £6.8 billion and £6.7 billion.

Awkward question

No rise in gross spending.

Allocations and spending power from receipts are increasing. But non-prescribed spending is expected to fall, now that leasing has been prescribed. Gross spending in 1989-90 and 1990-91 will be reviewed in 1988 Survey.

helpful to know, but not good line in practice.

Social Security

● Overrun of £0.4 billion on 1987 PEWP in 1987-88.

- Real terms increase in provision of about 4 per cent 1986-87 to 1990-91.

Bull points

- Expect to spend £200 million more in 1988-89 on weekly support for income support than if supplementary benefit weekly payments had been uprated. Spending further £200 million on top in transitional protection against cash losses.
- Total public expenditure in 1988-89 on income-related benefits estimated to be nearly £½ billion higher than in 1987 PEWP.
- Total benefit expenditure (including rate rebates: non-public expenditure) in 1986-87 up 40 per cent in real terms since 1978-79.
- Expenditure on benefits to long-sick and disabled up over 70 per cent in real terms 1986-87 on 1978-79.
- Government more than maintained commitment to protect pensions against inflation, despite about 800,000 new pensioners. Expenditure on elderly up 30 per cent in real terms 1986-87 on 1978-79.

Awkward questions

Child benefit: Freeze justified because

- Extra resources (£320 million in 1988-89) going to help families with children through Family Credit and Income Support; extra cost substantially more (£200 million) than CB saving.
- CB expensive. Cost £4.6 billion a year (10 per cent of social security expenditure). Each 10p extra would cost over 40 million a year.
- Higher CB gives no help to those on income-related benefits because these benefits are reduced if CB is increased. So increases in CB mainly benefit better off.
- Families better off in real terms because earnings increasing and income tax rates have been reduced. Between 1986-87 and 1987-88 weekly income married couple with two children on average male earnings will have increased, after tax and contributions, by 4 per cent in real terms.
- Decisions on level of CB in 1989-90 will be taken in 1988 Survey. [IF PRESSED: Programme does allow for increase in CB but need to balance money going to all mothers as CB against money going to low income families as Income Support and Family Credit.]
- No specific proposals at present to change nature of CB. But in view of costs (£4½ billion a year), Secretary of State has indicated need to keep under review.

Housing benefit

- Increase in rent taper on illustrative figures in White Paper saves £46 million a year.
- Overall, expenditure on HB will be about £½ billion lower in 1988-89 compared to 1987-88, largely through 20 per cent contribution to rates.
- Savings justified. Around 1 in 3 households now receive HB. Expenditure up from £1.2 billion in 1978-79 to £5.1 billion in 1986-87. Poorest (those on Income Support) will not be affected by rent taper change; steeper taper only applies to better off.

Decreases

Agriculture

Reduction of £180 million in 1988-89 and £160 million in 1989-90 on PEWP plans.

Awkward question

Fall in provision

Fall results mainly from reduced expenditure on CAP market support. Partly result of poor harvest in 1987 (reducing buying into intervention). Also reflects introduction of reforms in CAP of which UK has been major proponent.

Support for agriculture remains substantial in comparison with support for industry; public expenditure, as proportion of agriculture's contribution to economy, roughly 17 times that for manufacturing industry.

Housing

Net provision reduced by £14 million in 1988-89 and £104 million in 1989-90 compared with plans.

But receipts forecast to increase by £386 million and £394 million respectively. So planned gross spending higher than 1987 PEWP plans.

Plans provide for over £3.8 billion gross capital spending on housing in 1988-89. 11 per cent higher than previously planned and 4 per cent higher than expected 1987-88 outturn. Provision of £3.76 billion in 1989-90 and 1990-91.

Awkward questions

Gross capital spending in 1990-91 planned to be lower than in 1988-89. Government policy to reduce new build by public sector and encourage private sector provision because this increases freedom of choice. Housing provision better managed by attracting private investment. 161,000 private sector homes completed in GB in 1986 - highest number since 1973.

Backlog

1986 English House Conditions Survey (publication date not yet announced) will provide up-to-date information. Gross capital provision, totalling over £2.9 billion in 1988-89, will allow LAs to undertake essential work.

FCO Diplomatic Wing

Provision reduced by £10 million in 1988-89 and 1989-90. Reflects mixture of: increase in current spending on BBC External Services but provisional reduction in capital programme; reduction as result of changes in overseas prices and increase to cover about half cost of refurbishment of Old Public Offices.

Awkward questions

BBC External Services

Provisional reduction in capital provision reflects current reappraisal of elements of 10-year audibility programme. Appropriate provision will be reinstated when reappraisal completed.

- On current spending, BBC's request for additional funding scaled down. But increases agreed will enable programme to grow at some 5 per cent a year; likely to be at least equal to rate of increase in index-linked licence fee for domestic services. Outcome assumes BBC make continuing efficiency savings and takes account of significant underspends in previous years. Expect existing levels of service to be preserved.

British Council

Increases on previous plans (more than 7 per cent in both 1987-88 and 1988-89) included in 1986 Autumn Statement. Programme already planned to rise by nearly 3 per cent in 1988-89. Small change included now to reflect higher rate of increase in overseas prices than earlier assumed.

Other programmes

Aid

- 3 per cent real terms increase planned in size of programme 1986-87 to 1990-91. (Maintained in real terms since 1982-83.)
- Enough to absorb likely costs of interest subsidy contribution to enhance IMF Structural Adjustment Facility and World Bank General Capital Increase, as well as allowing for increases in bilateral programmes.
- UK sixth largest among Western donors and has met UN target for official and private flows in every year (except one) since 1979.

EC institutions

- Overall deterioration in outlook mainly reflects lower assumed UK share of agricultural receipts and higher share of own resources payments. But forecast of net payments to EC institutions always very uncertain and subject to wide margins of error.
- Projection based on 1.4 per cent ceiling. Prime Minister made quite clear after Brussels European Council that before question of additional own resources could be addressed, must have agreement on effective and binding control over Community spending, particularly agricultural spending.
- Assuming no change in own resources structure, and continuation of Fontainebleau abatement system, increase in VAT ceiling to 1.6 per cent might increase UK net payments to Community institutions after abatement by up to £150 million a year.
- In real terms UK's annual average net contribution to Community Budget between 1980 and 1986 broadly same as between 1975 and 1979. Position under Labour Government would have been worse but for transitional arrangements. Financial Mechanism negotiated by Labour Government to reduce contributions and not produce 1 ecu of refunds. In contrast, Fontainebleau mechanism by end 1987 will have given UK over £2.8 billion of abatements. Abatement in 1988 Preliminary Draft Budget largest abatement/refund ever.

Because of abatement

UK's VAT rate in 1987 Budget only 0.83 per cent compared with 1.35 per cent for Germany and 1.4 per cent for all other member states.

- UK share of Community own resources in 1987 (after abatement) likely to be only 16 per cent compared with 21 per cent before abatement.

Trade and Industry

- Increase of £260 million (1988-89) and £220 million (1989-90) on 1987 PEWP plans.
- Decision on details of programme still to be taken.

Government to abolish RDGs?

Position on various components, including regional assistance, will be made clear in New Year. Government remains committed to vigorous and effective regional industrial policy. Increased provision reflects, among other things, additional requirements for regional expenditure. DTI are not reviewing Assisted Area Map and all current DTI schemes remain open for business. But no area of Department's activity will be exempt from present review.

Nationalised industries

Electricity prices

For industry to decide in light of EFLs and financial targets set. Improvement in profits required to increase rate of return and for new investment programme. But reasonable for consumers to contribute to costs of new investment. Also scope for cost to savings to contain increases. Electricity prices fallen by 15 per cent in real terms over last 5 years. Domestic prices lowest in Europe.

Privatisation

External financing for water and electricity included in forward plans until firm sale dates set.

Employment

Rate of growth of employment programme now halted.

New measures introduced in January still in place. New totals show only small changes from 1987 PEWP. In any case

- over recent years DE programme increased share of public spending faster than any other major area;
- numbers planned to be helped by schemes will still be higher in 1988-89 than in 1987-88;
- labour market improving rapidly.

Job Release Scheme abolition

Take-up of scheme has been declining in recent years; impact on unemployment limited and does not target help on long-term unemployed either as group, or geographically. Money released can be used more effectively elsewhere.

New Worker Scheme abolition

Take-up of scheme much lower than expected when introduced in April 1986. No longer targetted on groups of unemployed most needing it: prospects for youngsters now much improved - UK youth unemployment below EC average and falling fast.

Transport

Additional provisions for roads very small

- On top of increase of £75 million in 1988-89 published in 1986 PEWP and further £14 million in 1986 Survey.
- National road spending planned to be higher in real terms in 1988-89 than at any time under present Government.
- Capital spending on motorways and other trunk roads in England planned to be about 30 per cent greater in real terms in 1988-89 than in 1978-79. Fell by over 40 per cent from 1973-74 to 1978-79.

Why provision for LA current spending on transport reduced? Reflects LAs own current spending pattern. They decide on distribution of spending between services in light of own priorities and circumstances and must take responsibility for it. LA capital allocations £43 million (7 per cent) higher in 1988-89 than 1987-88; increase planned mainly for roads.

Maintenance

- Maintenance backlog on national roads planned to be eliminated by 1992. Some 80 miles of motorway and 200 miles of other trunk roads to be renewed each year to 1989-90.
- Local road maintenance is responsibility of LAs. Audit Commission Report suggests another £100 million worth of work could be obtained from same provision if LAs improved maintenance arrangements.
- Cost of roads has fallen on average 6 miles now for price, in real terms, of 5 miles in 1978-79.

Arts

NB Principle of 3 year settlement not to be announced until 5 November.

- Provision in 1988-89 £50 million (6 per cent) and in 1989-90 £60 million (7 per cent) higher than in 1987 PEWP. Provision in 1990-91 broadly stable in real terms.
- Provision in 1988-89 up 23 per cent in real terms since 1978-79. (CG provision up 45 per cent.)

Science and Technology

Government support for civil R&D inadequate?

No. Agreed increases of £200 million a year over PEWP plans all relate to civil R&D.

Territories

Why are growth rates for Scotland and Wales much lower for years from 1988-89 than in 1987-88?

- For 1987-88 Reserve largely been allocated. Scottish and Welsh totals reflect increases in programmes which have benefitted from drawings on Reserve.
- For future years, Reserve unallocated.

Why is percentage increase in LA expenditure for Scotland in 1989-90 lower than for England and Wales?

Scottish increase lower because Secretary of State had to transfer resources (some £70 million) from elsewhere in his programme to fund generous 1988-89 RSG settlement announced last July (driven by higher overspending by Scottish LAs). Government hopes will not be repeated in later years.

Why is increase for central government expenditure in Scotland for 1988-89 low in proportion to Wales and Northern Ireland?

Reflects extent to which Secretary of State has had to switch resources to LAs to top up provision for cost of generous RSG settlement in 1988-89. Figures for later years show much higher increases for central government expenditure in Scotland.

Chancellor's Department

- Up £160 million in 1988-89 and £180 million in 1989-90.
- IR up 8.9 per cent 1988-89 and 9.5 per cent 1989-90.
- C&E up 6.7 per cent 1988-89 and 10.4 per cent 1989-90.
- Treasury (excluding RGPD and MPO transfer) down 0.4 per cent in 1988-89 and 0.6 per cent in 1989-90.
- IR and C&E account for virtually all increases and over three-quarters of programme totals. Needed to strengthen controls on drug smuggling and meet increased workloads. Over one-third represents increased expenditure on LAPR and MIRAS to those below tax threshold.

Infrastructure

- Increase in plans for gross public sector capital spending likely to be about £1 billion in both 1988-89 and 1989-90. (Details of current/capital split still being worked out.) 1986-87 broadly level with 1978-79 in real terms (down 23 per cent under Labour Government).
- Additions for housing, other environmental services, education, prisons, national roads plus £½ billion for nationalised industries in both 1988-89 and 1989-90.
- Health service capital up 41 per cent 1986-87 on 1978-79 (down 31 per cent under Labour).
- Motorway and trunk roads capital up 20 per cent (down 41 per cent under Labour).

Public sector capital spending declining as proportion of GDP? Yes. Government's policy is to reduce GGE as proportion of GDP, so bound to affect capital ratio too.

Capital spending falling as proportion of total public expenditure?

- Full details of capital/current split still being worked out. But no reason why capital should keep pace. Some areas where Government deliberately seeking to reduce role of state and increase role of private sector (eg new housing) are capital intensive.
- No target level of capital spending - concentrate on identifying individual worthwhile projects and making room for them within what is affordable public expenditure overall.

SECRET

PWP

MR A P HUDSON

AHH

FROM: MISS M E PEIRSON
DATE: 2 NOVEMBER 1987cc Principal Private Secretary
PS/Chief Secretary
Mr F E R Butler
Mr Scholar
Mr Turnbull
Mr R I G Allen
Ms Boys
Mr McIntyre
Miss O'Mara
Mr Gibson
Mr Tyrie
Mr Call

AUTUMN STATEMENT: ORAL STATEMENT, DRAFT OF 2 NOVEMBER

done | 1. Mr Turnbull kindly copied to me your minute and draft of today. I have the following comments: I am trying to get hold of DHSS to clear the paragraph on social security, and will let you know if any further changes are required as a result.

2. First, if I could make some suggestions on paragraphs which are none of my business:-

(i) paragraph 5: the drafting here leads to the expectation that the figure at the end of the paragraph will be higher than the £1^{bn} mentioned in para 4. People may think that the Chancellor has said £1½bn in para 5. It might be best to delete "in excess of" and substitute "[a little] over", and to delete "overall" and to substitute "net".

(ii) Paragraph 31: if you make the amendment suggested by EB, ie to substitute "since current records began" for "on record", I think there is a danger of cries about the various changes that there have been to the method of recording unemployment.

3. Otherwise, I am content with paragraph 17 on health, but have the following suggestions to make on paragraph 22 on social

now cleared

security (subject, as I said, to anything DHSS may have to offer):-

- (i) In line 2, delete "spending" and insert "provision" (in social security, as in local authority spending, actual spending may well be very different from provision);
- (ii) In the second sentence, delete "in large part" and substitute (after "this is") "partly". Increased take-up cannot be given as the main reason.
- (iii) In the second sentence again, ~~after "means-tested"~~ delete "take-up of means-tested benefits" and insert "number of claimants of income-related and disability benefits". The increase in take-up of means-tested benefits is rather small in 1988-89 (as a contributory factor to DHSS's forecast), but increased take-up of disability benefits, which are not means-tested, is a bigger factor.

MEP

MISS M E PEIRSON



FROM: A P HUDSON

DATE: 3 November 1987

PWF

MR D SAVAGE

cc Mr H P Evans
Mr S W Matthews
Miss O'Mara
Mr R I G Allen
Mr Tyrie**AUTUMN STATEMENT: GROWTH FORECAST**

This afternoon's Oral Statement includes the familiar statement that the UK economy is growing "faster than any other major economy".

2. The Chancellor would be grateful for some crisp defensive briefing in case he is challenged on the comparison with Canada. As I recall, the IMF World Economic Outlook forecast that Canada would grow faster than the UK this year. Subject to your views, I would have thought the main points to cover are:

- (a) UK fastest growing of major 7 over year to 1987 Q2 - already established (drawn from brief BB2);
- (b) which forecasts suggest we shall be the fastest growing for 1987 as a whole;
- (c) which forecasts suggest that Canada will grow faster;
- (d) why we think the forecasts at (b) will be more accurate than those at (c).

3. Please could I have this briefing by mid-day.

A P H

A P HUDSON

APM
WSP
PLWP
M.

~~AUTUMN STATEMENT 1987: ORAL STATEMENT:~~

~~FINAL DRAFT OF 2 NOVEMBER~~

CHANCELLOR OF THE EXCHEQUER'S AUTUMN STATEMENT,
3 NOVEMBER 1987.

With permission, Mr Speaker, I should like to make a statement.

2. I am laying before the House today an Autumn Statement which ^{as usual, contains} brings together ^{first,} the Government's outline public expenditure plans for the next three years and the expected outturn for this year; ^{second,} proposals for National Insurance contributions next year; and, ^{third,} the forecast of economic prospects for 1988 required by the 1975 Industry Act. *The forecast takes into account the likely effect of the recent falls in equity markets.*

of course
\$

3. I turn first to the expected outturn for the current financial year, 1987-88.

word wide

4. The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's public expenditure White Paper. The main reason for this shortfall is higher capital receipts by local authorities and new towns. Total spending on programmes, apart from this, is expected to be ^{surely} in line with plans.

5. Taking account of ~~debt interest and other~~ ^{miscellaneous} items not included in the planning total, the ~~overall~~ ^{net} shortfall on the expenditure side is likely to be ^{slight} in excess of £½ billion.

6. On the receipts side, total tax revenues are likely to exceed the Budget forecast by almost £2½ billion. This buoyancy reflects higher than forecast economic growth, greater than expected profitability, and an oil price above the \$15 a barrel assumed at the time of the Budget.

7. At that time, I set a Public Sector Borrowing Requirement for 1987-88 of some £4 billion, or 1 per cent of GDP. As a result of the higher tax revenues and lower spending, I now expect the PSBR for the current financial year to be only £1 billion, or ¼ per cent of GDP: the third successive year of significant undershoot. Privatisation proceeds have, of course, made an important contribution, ^{to this year's low PSBR.} but even if there had been no privatisation proceeds at all, ^{it would still be} ~~this would imply~~ the lowest PSBR for 17 years.

8. I turn now to the public expenditure plans for the next three years.

9. Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national ^{income} ~~output~~. There is likely to be a

SECRET

x further substantial reduction this year, which will make this the longest sustained fall in public expenditure as a proportion of national ^{income} ~~output~~ since the early 'fifties.

x 10. In July, Cabinet reaffirmed the objective of ensuring that public spending as a share of national ^{income} ~~output~~ continued to fall and in particular did not exceed the ratios published in the last White Paper. The plans that I am about to announce secure that objective.

11. New planning totals have been set at £156½ billion for 1988-89 and £167 billion for 1989-90, increases of £2½ billion and £5½ billion respectively over the totals previously published. For 1990-91 the planning total has been set at £176 billion.

12. For the later years, I have judged it prudent to set aside larger Reserves within the planning totals than I have done previously. The Reserves will therefore rise from £3½ billion in 1988-89, to £7 billion in 1989-90 and £10½ billion in 1990-91.

13. The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from last year.

x 14. As I have indicated, these plans mean that public spending, ~~even~~ excluding privatisation proceeds, will continue to fall as a share of national ^{income} ~~output~~. From a

~~the~~ *that shows*

~~peak of~~ nearly 47 per cent in 1982-83, ~~it~~ has come down to around 42½ per cent this year, and by 1990-91 will be down to 41½ per cent, the lowest since 1972-73. The new *proportions* ~~ratios~~ are lower, for each year, than those published in the last White Paper.

15. This *progress* ~~achievement~~ has been founded on our success in reining back the rate of growth of public spending. In the 1960s and 1970s public spending grew by around 3 per cent a year in real terms. In our first Parliament the real rate of growth averaged 2½ per cent a year; in our second Parliament it was just under 1½ per cent; and in the succeeding four years, that is the current year plus the three Survey years, the real growth of public spending is planned to be *around* ~~below~~ 1½ per cent a year, well within the prospective growth of the economy as a whole.

16. But while public spending as a whole is growing more slowly, the substantial reduction in public borrowing this Government has brought about, *has, by its reducing,* ~~has reduced~~ the ~~real~~ burden of debt interest payments, ~~and thus~~ made more room for programme spending. The Government has, therefore, *once* again been able to provide additional resources for a number of priority services. In each case, the figures I am about to give represent increases over ~~those~~ *the plans* ~~previously~~ published *in the last Public Expenditure White Paper.* ~~for the years in question.~~

17. First, health. An extra £700 million is being provided for the National Health Service in England in

1988-89, and an extra £800 million in 1989-90. On top of this the Health Service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

18. Second, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my ^{right hon. Friend} ~~RHF~~ the Home Secretary announced to the House in July. This will provide 4,200 extra places by 1993. ^{Provision for} Local authority spending on the police ^{has} ~~is~~ ^{been} ~~being~~ increased significantly.

19. Third, education. Provision for local authority current spending has again been increased substantially. ~~And~~ in addition, an extra £60 million a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115 million in 1988-89 and by £130 million in 1989-90. There will also be an additional £45 million in 1988-89 and £65 million in 1989-90 for science.

20. Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation, but ^{will also} provide additional resources for housing associations, much of it to be used in conjunction with private finance. ~~Provision for Urban~~ ^{stat}

Additional sums are also to be made available for Housing Action Trusts and Urban Development Corporations to help tackle the problems of inner cities.

80A

~~Development Corporations is being increased by £65 million next year, to help tackle the problems of the inner cities.~~

21.21. Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.

21.22. There are also substantial increases in social security spending, which has been increased by £1 billion in 1988-89 and £1.9 billion in 1989-90. In large part, this is because the take-up of means tested benefits is likely to be higher than was previously expected. It

also takes account of the decision announced last May to increase income-related benefits to reflect the average cost to claimants of having to pay 20 per cent of their rates.

upward of benefits announced by me at Low Federal
The Secretary of State for Social Services last week, include
the cost of emphasis income support claimants for their average
contribution to rates.

23. The additions to planned capital expenditure, taking all programmes together, amount to over £1 billion in each of the next two years. About half of this is for the nationalised industries, principally for the large scale investment programmes of the electricity and water industries.

24. Further information about these and other changes are contained in the printed Autumn Statement which will be available from the Vote Office as soon as I have sat down. Full details, together with information on running costs and manpower, will be given in the public expenditure White Paper early in the new year.

25. I turn now to National Insurance contributions.

26. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my ~~RHF~~ ^(with the Fund) the Secretary of State for Social Services made on 27 October.

27. The Lower Earnings Limit will be increased next April to £41 a week, in line with the single person's pension, and the Upper Earnings Limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent and 7 per cent bands will be raised to £70 and £105 respectively. The upper limit for the 9 per cent rate for employers will be raised to £155.

28. The taxpayer's contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced ~~by 2~~ ^{from 7} per cent to 5 per cent, but this will not require any change in contribution rates. Thus, the main Class I contribution rates will once again remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

29. Finally, I turn to the Industry Act Forecast.

30. Growth this year looks to be turning out at 4 per cent, compared with the 3 per cent growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981, and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry ~~has done~~ ^{is doing} particularly well, with output rising by 5 per cent.

31. This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago - the largest annual fall on record. Indeed, unemployment has been falling faster in the UK than in any other major country.

32. As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see no need to amend my Budget forecast of a modest current account ~~payments~~ deficit of some £2½ billion, or about ½ per cent of GDP.

33. Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. ^(As I have always indicated, the) ~~The~~ full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets insofar as ^{it} ~~that~~ is possible ^{to do so} at this early stage. This is clearly a time when economic forecasting is a more than usually hazardous business. But ~~whatever~~

What is clear is that

~~happens,~~ the strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm ~~that may be gathering.~~ *And that strength will also enable us to play a full part in ~~the~~ international co-operation which is more than ever needed today.*

34. Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North Sea oil output now declining, this implies 3 per cent growth for the non-North Sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. Business investment ~~outside the North Sea~~ is likely to be particularly strong, rising by 5½ per cent.

35. With the UK continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¼ per cent of GDP.

36. Inflation may rise a little next year, reaching 4½ per cent in the fourth quarter, by which time it should be on a downward trend again. The ~~suppression~~ ^{defeat} of inflation remains at the heart of the Government's economic strategy.

37. With continuing healthy growth in 1988, unemployment should continue to fall.

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38. The progress and prospects I have described demonstrate once again the soundness of the policies we have followed, over the past two Parliaments, ^{WT} and will continue to pursue ^(then ph275) in our third. Despite the recent deterioration in the world economic climate, ~~about which I have frequently warned in the past, and which will now need particularly careful handling,~~ the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.

CHANCELLOR OF THE EXCHEQUER'S AUTUMN STATEMENT,
3 NOVEMBER 1987

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT.

I AM LAYING BEFORE THE HOUSE TODAY AN AUTUMN STATEMENT WHICH, AS USUAL, CONTAINS FIRST, THE GOVERNMENT'S OUTLINE PUBLIC EXPENDITURE PLANS FOR THE NEXT THREE YEARS AND THE EXPECTED OUTTURN FOR THIS YEAR; SECOND, PROPOSALS FOR NATIONAL INSURANCE CONTRIBUTIONS NEXT YEAR; AND, THIRD, THE FORECAST OF ECONOMIC PROSPECTS FOR 1988 REQUIRED BY THE 1975 INDUSTRY ACT.

THE FORECAST OF COURSE TAKES INTO ACCOUNT THE LIKELY EFFECT OF THE RECENT WORLDWIDE FALLS IN EQUITY MARKETS.

I TURN FIRST TO THE EXPECTED OUTTURN FOR THE CURRENT FINANCIAL YEAR, 1987-88.

THE PUBLIC EXPENDITURE PLANNING TOTAL NOW LOOKS LIKELY TO AMOUNT TO £147½ BILLION, OR AROUND £1 BILLION LESS THAN WAS ALLOWED FOR IN THE LAST PUBLIC EXPENDITURE WHITE PAPER.

THE MAIN REASON FOR THIS SHORTFALL IS HIGHER CAPITAL RECEIPTS BY LOCAL AUTHORITIES AND NEW TOWNS.

TOTAL SPENDING ON PROGRAMMES, APART FROM THIS, IS EXPECTED TO BE BROADLY IN LINE WITH PLANS.

TAKING ACCOUNT OF MISCELLANEOUS ITEMS NOT INCLUDED IN THE PLANNING TOTAL, THE NET SHORTFALL ON THE EXPENDITURE SIDE IS LIKELY TO BE SLIGHTLY IN EXCESS OF £½ BILLION.

ON THE RECEIPTS SIDE, TOTAL TAX REVENUES ARE LIKELY TO EXCEED THE BUDGET FORECAST BY ALMOST £2½ BILLION.

THIS BUOYANCY REFLECTS HIGHER THAN FORECAST ECONOMIC GROWTH, GREATER THAN EXPECTED PROFITABILITY, AND AN OIL PRICE ABOVE THE \$15 A BARREL ASSUMED AT THE TIME OF THE BUDGET.

AT THAT TIME, I SET A PUBLIC SECTOR BORROWING REQUIREMENT FOR 1987-88 OF SOME £4 BILLION, OR 1 PER CENT OF GDP.

AS A RESULT OF THE HIGHER TAX REVENUES AND LOWER SPENDING, I NOW EXPECT THE PSBR FOR THE CURRENT FINANCIAL YEAR TO BE ONLY £1 BILLION, OR $\frac{1}{4}$ PER CENT OF GDP: THE THIRD SUCCESSIVE YEAR OF SIGNIFICANT UNDERSHOOT.

PRIVATISATION PROCEEDS HAVE, OF COURSE, MADE AN IMPORTANT CONTRIBUTION TO THIS YEAR'S LOW PSBR.

BUT EVEN IF THERE HAD BEEN NO PRIVATISATION PROCEEDS AT ALL, IT WOULD STILL BE THE LOWEST PSBR FOR 17 YEARS.

I TURN NOW TO THE PUBLIC EXPENDITURE PLANS FOR THE NEXT THREE YEARS.

SINCE 1982-83 PUBLIC SPENDING, BOTH INCLUDING AND EXCLUDING PRIVATISATION PROCEEDS, HAS BEEN DECLINING AS A PROPORTION OF NATIONAL INCOME.

THERE IS LIKELY TO BE A FURTHER SUBSTANTIAL REDUCTION THIS YEAR, WHICH WILL MAKE THIS THE LONGEST SUSTAINED

FALL IN PUBLIC EXPENDITURE AS A PROPORTION OF NATIONAL INCOME SINCE THE EARLY 'FIFTIES.

IN JULY, CABINET REAFFIRMED THE OBJECTIVE OF ENSURING THAT PUBLIC SPENDING AS A SHARE OF NATIONAL INCOME CONTINUED TO FALL AND IN PARTICULAR DID NOT EXCEED THE RATIOS PUBLISHED IN THE LAST WHITE PAPER.

THE PLANS THAT I AM ABOUT TO ANNOUNCE SECURE THAT OBJECTIVE.

NEW PLANNING TOTALS HAVE BEEN SET AT £156 $\frac{3}{4}$ BILLION FOR 1988-89 AND £167 BILLION FOR 1989-90, INCREASES OF £2 $\frac{1}{2}$ BILLION AND £5 $\frac{1}{2}$ BILLION RESPECTIVELY OVER THE TOTALS PREVIOUSLY PUBLISHED.

FOR 1990-91 THE PLANNING TOTAL HAS BEEN SET AT £176 BILLION.

FOR THE LATER YEARS, I HAVE JUDGED IT PRUDENT TO SET ASIDE LARGER RESERVES WITHIN THE PLANNING TOTALS THAN I HAVE DONE PREVIOUSLY.

THE RESERVES WILL THEREFORE RISE FROM £3½ BILLION IN 1988-89, TO £7 BILLION IN 1989-90 AND £10½ BILLION IN 1990-91.

THE PLANNING TOTALS ALSO INCORPORATE AN ESTIMATE FOR PRIVATISATION PROCEEDS OF £5 BILLION A YEAR, UNCHANGED FROM THE LAST WHITE PAPER.

AS I HAVE INDICATED, THESE PLANS MEAN THAT PUBLIC SPENDING, EXCLUDING PRIVATISATION PROCEEDS, WILL CONTINUE TO FALL AS A SHARE OF NATIONAL INCOME.

FROM NEARLY 47 PER CENT IN 1982-83, THAT SHARE HAS COME DOWN TO AROUND 42½ PER CENT THIS YEAR, AND BY 1990-91 WILL BE DOWN TO 41¼ PER CENT, THE LOWEST SINCE 1972-73. THE NEW PROPORTIONS ARE LOWER, FOR EACH YEAR, THAN THOSE PUBLISHED IN THE LAST WHITE PAPER.

THIS PROGRESS HAS BEEN FOUNDED ON OUR SUCCESS IN REINING BACK THE RATE OF GROWTH OF PUBLIC SPENDING.

IN THE 1960s AND 1970s PUBLIC SPENDING GREW BY AROUND 3 PER CENT A YEAR IN REAL TERMS.

IN OUR FIRST PARLIAMENT THE REAL RATE OF GROWTH AVERAGED $2\frac{1}{4}$ PER CENT A YEAR; IN OUR SECOND PARLIAMENT IT WAS JUST UNDER $1\frac{3}{4}$ PER CENT; AND IN THE SUCCEEDING FOUR YEARS, THAT IS THE CURRENT YEAR PLUS THE THREE SURVEY YEARS, THE REAL GROWTH OF PUBLIC SPENDING IS PLANNED TO BE AROUND $1\frac{1}{4}$ PER CENT A YEAR, WELL WITHIN THE PROSPECTIVE GROWTH OF THE ECONOMY AS A WHOLE.

BUT WHILE PUBLIC SPENDING AS A WHOLE IS GROWING MORE SLOWLY, THE SUBSTANTIAL REDUCTION IN PUBLIC BORROWING THIS GOVERNMENT HAS BROUGHT ABOUT, HAS, BY REDUCING THE BURDEN OF DEBT INTEREST PAYMENTS, MADE MORE ROOM FOR PROGRAMME SPENDING.

COUPLED WITH STEADY ECONOMIC GROWTH, THIS HAS ENABLED THE GOVERNMENT TO PROVIDE ADDITIONAL RESOURCES FOR A NUMBER OF PRIORITY SERVICES.

IN EACH CASE, THE FIGURES I AM ABOUT TO GIVE REPRESENT INCREASES OVER THE PLANS PUBLISHED IN THE LAST PUBLIC EXPENDITURE WHITE PAPER.

FIRST, HEALTH.

AN EXTRA £700 MILLION IS BEING PROVIDED FOR THE NATIONAL HEALTH SERVICE IN ENGLAND IN 1988-89, AND AN EXTRA £800 MILLION IN 1989-90.

ON TOP OF THIS THE HEALTH SERVICE WILL BENEFIT FROM ADDITIONAL RESOURCES FROM THE COST IMPROVEMENT PROGRAMMES AND FROM LAND SALES.

ALL THIS WILL ENABLE THE NHS TO CONTINUE TO IMPROVE SERVICES.

SECOND, LAW AND ORDER.

PROVISION HAS BEEN MADE FOR THE SUBSTANTIAL INCREASE AND ACCELERATION IN THE PRISON BUILDING PROGRAMME, WHICH MY RIGHT HON. FRIEND THE HOME SECRETARY ANNOUNCED TO THE HOUSE IN JULY.

THIS WILL PROVIDE 4,200 EXTRA PLACES BY 1993.

PROVISION FOR LOCAL AUTHORITY SPENDING ON THE POLICE HAS ALSO BEEN INCREASED SIGNIFICANTLY.

THIRD, EDUCATION.

PROVISION FOR LOCAL AUTHORITY CURRENT SPENDING HAS AGAIN BEEN INCREASED SUBSTANTIALLY.

IN ADDITION, AN EXTRA £60 MILLION A YEAR HAS BEEN PROVIDED FOR THE IMPROVEMENT OF SCHOOL BUILDINGS.

SPENDING ON THE UNIVERSITIES WILL BE INCREASED BY £115 MILLION IN 1988-89 AND BY £130 MILLION IN 1989-90.

THERE WILL ALSO BE AN ADDITIONAL £45 MILLION IN 1988-89 AND £65 MILLION IN 1989-90 FOR SCIENCE.

GROSS PROVISION FOR HOUSING INVESTMENT IS BEING INCREASED BY NEARLY £400 MILLION NEXT YEAR.

THIS WILL NOT ONLY SUSTAIN THE RISING TREND OF SPENDING ON LOCAL AUTHORITY RENOVATION, BUT WILL ALSO PROVIDE ADDITIONAL RESOURCES FOR HOUSING ASSOCIATIONS, MUCH OF IT TO BE USED IN CONJUNCTION WITH PRIVATE FINANCE.

PROVISION FOR URBAN DEVELOPMENT CORPORATIONS IS BEING INCREASED BY £65 MILLION NEXT YEAR, TO HELP TACKLE THE PROBLEMS OF THE INNER CITIES.

THERE ARE ALSO SUBSTANTIAL INCREASES IN PROVISION FOR SOCIAL SECURITY SPENDING, WHICH HAS BEEN INCREASED BY £1 BILLION FOR 1988-89 AND £1.9 BILLION FOR 1989-90.

THIS IS PARTLY BECAUSE THE TAKE-UP OF BENEFITS IS LIKELY TO BE HIGHER THAN WAS PREVIOUSLY ENVISAGED.

IT ALSO TAKES ACCOUNT OF THE UPRATING OF BENEFITS ANNOUNCED BY MY RIGHT HON. FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES LAST WEEK, INCLUDING THE COST OF COMPENSATING INCOME SUPPORT CLAIMANTS FOR THEIR AVERAGE CONTRIBUTION TO RATES.

SPENDING ON DEFENCE IS TO BE INCREASED BY £230 MILLION IN 1988-89 AND £490 MILLION IN 1989-90.

THE ADDITIONS TO PLANNED CAPITAL EXPENDITURE, FOR THE PUBLIC SECTOR AS A WHOLE, AMOUNT TO SOME £1 BILLION IN EACH OF THE NEXT TWO YEARS.

ABOUT HALF OF THIS IS FOR THE NATIONALISED INDUSTRIES, PRINCIPALLY FOR THE LARGE SCALE INVESTMENT PROGRAMMES OF THE ELECTRICITY AND WATER INDUSTRIES.

FURTHER INFORMATION ABOUT THESE AND OTHER CHANGES IS CONTAINED IN THE PRINTED AUTUMN STATEMENT WHICH WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

FULL DETAILS, TOGETHER WITH INFORMATION ON RUNNING COSTS AND MANPOWER, WILL BE GIVEN IN THE PUBLIC EXPENDITURE WHITE PAPER EARLY IN THE NEW YEAR.

I TURN NOW TO NATIONAL INSURANCE CONTRIBUTIONS.

THE GOVERNMENT HAVE CONDUCTED THE USUAL AUTUMN REVIEW OF CONTRIBUTIONS IN THE LIGHT OF ADVICE FROM THE GOVERNMENT

ACTUARY ON THE PROSPECTIVE INCOME AND EXPENDITURE OF THE NATIONAL INSURANCE FUND, AND TAKING ACCOUNT OF THE STATEMENT ON BENEFITS WHICH MY RIGHT HON. FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES MADE ON 27 OCTOBER.

THE LOWER EARNINGS LIMIT WILL BE INCREASED NEXT APRIL TO £41 A WEEK, IN LINE WITH THE SINGLE PERSON'S PENSION, AND THE UPPER EARNINGS LIMIT WILL BE RAISED TO £305 A WEEK. THE LIMITS FOR THE REDUCED RATE BANDS WILL ALSO BE INCREASED.

THE UPPER LIMIT FOR THE 5 PER CENT AND 7 PER CENT BANDS WILL BE RAISED TO £70 A WEEK AND £105 A WEEK RESPECTIVELY.

THE UPPER LIMIT FOR THE 9 PER CENT RATE FOR EMPLOYERS WILL BE RAISED TO £155 A WEEK.

THE TAXPAYER'S CONTRIBUTION TO THE NATIONAL INSURANCE FUND - THE SO-CALLED TREASURY SUPPLEMENT - WILL BE

REDUCED FROM 7 PER CENT TO 5 PER CENT, BUT THIS WILL NOT REQUIRE ANY CHANGE IN CONTRIBUTION RATES.

THUS, THE MAIN CLASS I CONTRIBUTION RATES WILL ONCE AGAIN REMAIN UNCHANGED AT 9 PER CENT FOR EMPLOYEES AND 10.45 PER CENT FOR EMPLOYERS.

FINALLY, I TURN TO THE INDUSTRY ACT FORECAST.

GROWTH THIS YEAR LOOKS TO BE TURNING OUT AT 4 PER CENT, COMPARED WITH THE 3 PER CENT GROWTH I FORECAST AT THE TIME OF THE BUDGET.

THIS IS WELL ABOVE THE TREND OF THE STEADY UPSWING WHICH BEGAN IN 1981, AND FASTER THAN ANY OTHER MAJOR ECONOMY. STRONG GROWTH IN DOMESTIC DEMAND HAS BEEN MORE THAN MATCHED BY THE RAPID RISE IN EXPORTS.

MANUFACTURING INDUSTRY IS DOING PARTICULARLY WELL, WITH OUTPUT RISING BY 5 PER CENT.

THIS STRONG PERFORMANCE HAS LED TO A SUBSTANTIAL FALL IN UNEMPLOYMENT, WHICH IS NOW MORE THAN 400,000 LOWER THAN A YEAR AGO - THE LARGEST ANNUAL FALL ON RECORD.

INDEED, UNEMPLOYMENT HAS BEEN FALLING FASTER IN THE UK THAN IN ANY OTHER MAJOR COUNTRY.

AS I FORECAST AT THE TIME OF THE BUDGET, INFLATION IN THE FOURTH QUARTER OF THIS YEAR IS LIKELY TO BE 4 PER CENT.

I ALSO SEE NO NEED TO AMEND MY BUDGET FORECAST OF A MODEST CURRENT ACCOUNT DEFICIT OF SOME £2½ BILLION, OR ABOUT ½ PER CENT OF GDP.

LOOKING AHEAD TO 1988, THE PROSPECT IS FOR A CONTINUATION OF THE STEADY GROWTH WITH LOW INFLATION THAT WE HAVE NOW ENJOYED FOR OVER FIVE YEARS.

AS I HAVE ALREADY INDICATED, THE FULL FORECAST I AM PUBLISHING TODAY TAKES INTO ACCOUNT THE LIKELY IMPLICATIONS OF THE RECENT FALLS IN WORLD STOCK MARKETS INSOFAR AS IT IS POSSIBLE TO DO SO AT THIS EARLY STAGE.

THIS IS CLEARLY A TIME WHEN ECONOMIC FORECASTING IS A MORE THAN USUALLY HAZARDOUS BUSINESS.

BUT WHAT IS CLEAR IS THAT THE STRENGTH OF THE BRITISH ECONOMY, AND OF OUR PUBLIC FINANCES, PUTS US IN THE BEST POSSIBLE POSITION TO WEATHER ANY STORM.

AND THAT STRENGTH WILL ALSO ENABLE US TO PLAY A FULL PART IN THE INTERNATIONAL CO-OPERATION WHICH IS MORE THAN EVER NEEDED TODAY.

SUBJECT TO THE UNCERTAINTIES TO WHICH I HAVE JUST REFERRED, THE ECONOMY IS FORECAST TO GROW NEXT YEAR BY AROUND $2\frac{1}{2}$ PER CENT.

WITH NORTH SEA OIL OUTPUT NOW DECLINING, THIS IMPLIES 3 PER CENT GROWTH FOR THE NON-NORTH SEA ECONOMY AS A WHOLE.

DOMESTIC DEMAND SHOULD CONTINUE TO EXPAND, THOUGH AT A SLIGHTLY LOWER RATE THAN THIS YEAR, WITH CONSUMER SPENDING AND INVESTMENT GROWING AT A SIMILAR PACE.

BUSINESS INVESTMENT IS LIKELY TO BE PARTICULARLY STRONG, RISING BY $5\frac{1}{2}$ PER CENT.

WITH THE UK CONTINUING TO GROW FASTER THAN OTHER MAJOR COUNTRIES, AND THE OIL SURPLUS DECLINING, THERE IS LIKELY TO BE A FURTHER SMALL INCREASE IN THE CURRENT ACCOUNT DEFICIT, TO ABOUT £3½ BILLION, OR ¾ PER CENT OF GDP.

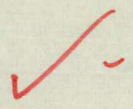
INFLATION MAY RISE A LITTLE NEXT YEAR, REACHING 4½ PER CENT IN THE FOURTH QUARTER, BY WHICH TIME IT SHOULD BE ON A DOWNWARD TREND AGAIN.

THE DEFEAT OF INFLATION REMAINS AT THE HEART OF THE GOVERNMENT'S ECONOMIC STRATEGY.

WITH CONTINUING HEALTHY GROWTH IN 1988, UNEMPLOYMENT SHOULD CONTINUE TO FALL.

THE PROGRESS AND PROSPECTS I HAVE DESCRIBED DEMONSTRATE ONCE AGAIN THE SOUNDNESS OF THE POLICIES WE HAVE FOLLOWED OVER THE PAST TWO PARLIAMENTS.

WE WILL CONTINUE TO PURSUE THESE POLICIES IN OUR THIRD.



DESPITE THE RECENT DETERIORATION IN THE WORLD ECONOMIC CLIMATE, THE PROSPECT I AM ABLE TO OFFER THE HOUSE IS ONE OF FURTHER SUSTAINED GROWTH AND STEADILY RISING LIVING STANDARDS, WITH INFLATION LOW AND UNEMPLOYMENT CONTINUING TO FALL.

WE HAVE BROUGHT THIS ABOUT BY PROMOTING ENTERPRISE, SOUND MONEY AND STRONG PUBLIC FINANCES.

AND THAT IS WHAT WE WILL STICK TO.



FROM: CATHY RYDING
DATE: 3 November 1987

MR MOWL

cc: Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Segwick
Mr R I G Allen
Miss O'Mara
Mr Ritchie
Miss C Evans

AUTUMN STATEMENT CHAPTER 1: REVISIONS TO 1986-87 PSBR

The Chancellor was grateful for your minute of 2 November and notes your comment in the final paragraph that this incident has identified some flaws in the procedures for publishing the PSBR figures which you will examine urgently with the CSO and the Bank.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

FROM: COLIN MOWL
DATE: 2 November 1987

CHANCELLOR

1 Alex
2. C.*Thanks!
1 note X.*cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Sedgwick
Mr R I G Allen
Miss O'Mara
Mr Ritchie
Miss C Evans**AUTUMN STATEMENT CHAPTER 1: REVISIONS TO 1986-87 PSBR**

With Mr Scholar's agreement we have this morning made some minor amendments to the fiscal developments section of Chapter 1 to take on board late revisions by the CSO to the 1986-87 PSBR. These leave the rounded PSBR at £3.4 billion, and 1 per cent of GDP, as in the version you saw on Friday, but require changes to the description of some of the components. The changes are marked in manuscript on the attached copy.

2. An estimate of £3.4 billion was first published in the PSBR press notice on 16 October. On Thursday the Bank published a revised estimate of £3.3 billion in the money and banking press notice. Unfortunately, while the Bank drew the CSO's (and our) attention to a revision to the first half of 1987-88, it omitted to highlight the revision to 1986-87 - the revision was not immediately obvious from the detailed tables. After looking at the Bank's numbers at our request the CSO decided that it was not happy with all of the Bank's revisions and recommended that for Autumn Statement purposes we use a figure lower than in the PSBR press notice but higher than in the Bank's press notice. As noted above however the recommended figure rounds to £3.4 billion as in the PSBR press notice.

3. Most outsiders get PSBR figures from the PSBR press notice or Financial Statistics (October Financial Statistics was consistent with the October PSBR press notice). They should therefore be expecting a 1986-87 estimate of £3.4 billion. If anyone asks why the Autumn Statement has a different figure from the Bank's press notice we will say it is based on later information.

X/ 4. This incident has identified some flaws in the procedures for publishing the PSBR figures which we shall examine urgently with the CSO and Bank to ensure that this does not happen again.

Colin Mowl

COLIN MOWL

Unemployment 1.49 Since June 1986 seasonally adjusted adult unemployment in the UK has fallen for fifteen months in succession, by some 437,000 in total; the number of unemployed school leavers has also fallen, by some 48,000 over the last year. The greater part of the improved trend in unemployment this year is attributable to the strong growth of output and employment. The remainder is due to various government measures to provide training or work experience for the unemployed, or to help them to find jobs. The prospects for the UK economy over the next year mean that a further fall in unemployment is likely. The main danger to the chances of further progress in reducing unemployment is of pay settlements being too high.

Financial developments 1.50 The sterling exchange rate, as already noted, has been broadly stable over the past eight months, following the conclusion of the Louvre agreement. During that time there has been a substantial inflow into the reserves amounting to some £9 billion.

1.51 The year-on-year growth of M0 has been somewhat above the midpoint of its 2-6 per cent target range in recent months, in part reflecting earlier falls in interest rates. M0 is expected to continue to grow quite briskly in the immediate future before slowing down again.

1.52 Broad money has continued to rise rapidly. This has reflected at least in part increased deposits by companies and financial institutions. The strong growth of broad money, which has been evident in recent years, is to a considerable extent the consequence of financial innovation and liberalisation.

1.53 The sharp fall in share prices will tighten monetary conditions somewhat. This will to some extent be offset by a fall in short term interest rates; and long term rates have also eased. On the balance of evidence monetary conditions remain firm.

Fiscal developments 1.54 Tables 1.9 to 1.11 show both the Budget projections and latest forecasts for general government expenditure and receipts and public sector borrowing in 1987-88. They show also the 1986-87 outturn. The PSBR in 1986-87 was £3½ billion, ~~nearly~~ £½ billion lower than estimated in the 1987 FSBR. Lower central government borrowing, more than accounted for by higher than expected tax revenues, was responsible for ~~about two-thirds~~ ^{over} ~~of~~ ^{half} this downward revision, with the remaining ~~one-third~~ ^{one-third} due to lower than expected local authority borrowing.

1.55 In the first six months of 1987-88 the PSBR was £1½ billion. Excluding privatisation proceeds, borrowing was about £1½ billion lower than in the first half of 1986-87. The revised forecast for 1987-88 as a whole is a PSBR of £1 billion, about £3 billion lower than forecast in the FSBR. This is mainly due to higher than expected tax revenues but there is also likely to be a shortfall on the expenditure side.

1.56 Table 1.9 shows the relationship between the public expenditure planning total and general government expenditure. The outturn for the public expenditure planning total is expected to be £1 billion lower than

was forecast in the FSBR. This is largely accounted for by higher capital receipts of local authorities and New Towns. Excluding privatisation proceeds, general government expenditure is now projected to increase by 5 per cent in 1987-88, a little less than the increase in 1986-87.

Table 1.9 General government expenditure

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Public expenditure planning total	139.4	148.6	147.6
Interest payments	17.4	17.9	17.8
Less public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
Other adjustments	6	6.2	6.7
General government expenditure	165.1	173.5	172.8
of which			
Privatisation proceeds	-4.4	-5.0	-5.0

1.57 Table 1.10 shows the forecast for general government receipts. The forecast of tax and national insurance revenues has been increased by £2½ billion since the Budget. The forecast of on-shore corporation tax, including ACT, is about £¼ billion higher, mainly reflecting upward revisions, since the FSBR, to profits estimates for 1986 and, in the case of ACT, a higher level of dividend payments so far in 1987. The upward revision of £½ billion to North Sea revenues is more than accounted for by the higher dollar oil price than was assumed at Budget time. The forecasts of personal income tax, VAT and national insurance contributions are also each about £½ billion higher than in the FSBR. General government receipts in total are now forecast to rise by nearly 7 per cent in 1987-88, following an increase of ~~5~~ 6 per cent in 1986-87 (when North Sea revenues more than halved).

Table 1.10 General government receipts

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Taxes on income, expenditure and capital	119.6	127.8	130.1
National insurance and other contributions	26.7	28.5	28.9
Interest and other receipts	13.24	12.6	12.3
Accruals adjustment	0.5	0.0	-0.2
Total receipts	160.23	168.8	171.1
of which			
North Sea revenues	4.8	3.9	4.5

1.58 Table 1.11 shows the old and new forecasts for borrowing. The PSBR forecast is still subject to a great degree of uncertainty: the average error on PSBR forecasts for the current financial year made in the autumn is $\frac{1}{2}$ per cent of GDP, or £2½ billion. But on the basis of this forecast, the PSBR, both including and excluding privatisation proceeds, will be lower as a proportion of money GDP than in any year since 1970-71.

Table 1.11 Public sector borrowing

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
General government expenditure	165.1	173.5	172.8
General government receipts	160.2 3	168.8	171.1
General government borrowing requirement	4.9	4.7	1.7
Public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
PSBR	3.4	3.9	1.0
PSBR as per cent of GDP	1	1	$\frac{1}{2}$
Memorandum item:			
PSBR excluding privatisation proceeds	7.9 8	8.9	6.0
As per cent of GDP	2	2½	1½

cc

A, B Po's

chancellor 12/2

GORDON BROWN/ JOHN REDWOOD - INTERVIEW ON AUTUMN STATEMENT

Transcript from: BBC Radio 4, World at One, 3 November 1987

INTERVIEWER: (NICK WORREL) I asked John Redwood first if he thought Mr Lawson in his approach would show his eye firmly fixed on a still shell shocked City of London?

REDWOOD: I think he should take note of the events of the last few weeks but I don't think we should relax all the controls over public spending simply because equity prices have gone through a sharp correction. I think the Chancellor is in a very strong position. If he keeps reasonable control over public spending he can then look at the situation come the Budget. And if he decides then that there is a threat of recessionary forces then of course he can take action at the time of the Budget, cutting taxes or even allowing a little supplementary spending.

INTERVIEWER: Gordon Brown, do you think that the City should just take it on the chin and wait and see what happens?

BROWN: I think what the Chancellor should do is adjust to the new economic realities. I think John Redwood's being a bit complacent and my suspicion is that the Chancellor will be this afternoon as well. I think we've got to face up to the fact that all the predictions about the international growth rate have had to be adjusted in the last few days. I think also that the Chancellor will have to make some adjustment to his previously optimistic ^ystatement about the growth rate for next year for the British economy. And what we would be looking for this afternoon, and I think this is an ideal opportunity that the Chancellor has that I hope he takes to face up to these new realities, is an adjustment in public spending which would mean an increase in public investment that would allow us to face the next year with the prospect of keeping unemployment down instead of it coming up. I think most of the predictions that have been made both

from the City and I'm sure from within the Treasury suggest that the growth rate will dip and unemployment may rise. We've got to prevent that. And interestingly enough the Chancellor this afternoon has the funds to do it. He's got the benefit of rising North Sea oil revenues and can afford to pay for it. And I hope John Redwood would repeat what he said on Sunday that there should be an increase in public borrowing to cope with what we now can anticipate as a downturn in growth.

INTERVIEWER: Would you repeat?

REDWOOD: Well no what I said on Sunday on a television programme was if the world economy fell 5% in terms of total output next year, which I said I thought was extremely unlikely, then yes we should anticipate having a higher borrowing requirement and I would be happy about borrowing some £5 or 6000 million in those circumstances. But I think today the Chancellor will be looking forward to a much better prospect than that. I think he will have to make a small downward reduction in his growth rate forecast. And I think he will have to also have to reduce his inflation forecast. Because I do think we are now looking at a much better inflation outlook than we were before. And I think Gordon Brown is being alarmist. The UK economy is still growing very strongly. It is about the best placed of all the major international economies in these difficult circumstances. And that is a great triumph for the Chancellor because his prudent management has left us able to weather these very difficult storms. .

INTERVIEWER: Surely Gordon Brown the prospect at the moment is that Mr Lawson can look forward to some rather buoyant revenues, there's no real reason for long term gloom is there?

BROWN: Yes, but very little of these revenues are to do with his good management. They're very much to do with his good fortune that oil prices in particular have risen faster than he expected. But again

we're having from Mr Redwood the sort of complacency that could lead us into trouble next year. Now as I understood it Mr Redwood on Sunday was suggesting that if the British economy was growing at just around 2%, which was the London Business School forecast, unemployment would rise and therefore there would be a need for a public spending injection. I think we can anticipate that now. And of course we are in a situation where the Chancellor has sufficient revenues to anticipate that and it makes good sense, for example, to invest in the inner cities and regions today and to spend more on investment in education and training, which is what the CBI has been asking for, and to spend more on research. Now these will aid the efficiency of the economy. They will also enhance social justice in some of the worst areas of the country. My fear is that the inner cities and regions which would bear the main brunt of any recession will soon move from a recession to a depression without having ever experienced a recovery.

INTERVIEWER: Can I ask you both finally for some sort of a precise guess as to what Mr Lawson is going to do, Gordon Brown first of all?

BROWN: I think we will see standstill budgets in most areas and significant cuts in some areas. And I think Mr Lawson has got to be asked this afternoon if he says the economy is so successful why is he cutting social security by I think about £500 million, cutting the health service needs by something in the order of a billion, cutting housing and cutting the budgets for the inner cities and regions. These are precisely the measures that will entrench us in a low growth rate and cause unemployment to rise. He has an opportunity to stop that this afternoon.

INTERVIEWER: John Redwood?

REDWOOD: Well that's just a different world from the real one. I think what we'll be listening to this afternoon is an increase in public spending of some £2500 million over the targets previously

announced and those targets themselves were targets representing some growth in public spending.

BROWN: as high this year? It's not a real increase at all.

REDWOOD: I've listened to all your erroneous figures.

INTERVIEWER: And we do have to be brief.

REDWOOD: Yes indeed, I think we will see increases on health expenditure which I think are needed and on education expenditure. There will be some extra monies for the public sector pay awards which have been generous over the last year. And overall there will be modest growth in public spending which is appropriate at this stage in the cycle.

CHANCELLOR OF THE EXCHEQUER'S AUTUMN STATEMENT, 3 NOVEMBER 1987

With permission, Mr Speaker, I should like to make a statement.

I am laying before the House today an Autumn Statement which, as usual, contains first, the Government's outline public expenditure plans for the next three years and the expected outturn for this year; second, proposals for National Insurance contributions next year; and, third, the forecast of economic prospects for 1988 required by the 1975 Industry Act. The forecast of course takes into account the likely effect of the recent worldwide falls in equity markets.

I turn first to the expected outturn for the current financial year, 1987-88.

The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's Public Expenditure White Paper. The main reason for this shortfall is higher capital receipts by local authorities and new towns. Total spending on programmes, apart from this, is expected to be broadly in line with plans.

Taking account of miscellaneous items not included in the planning total, the net shortfall on the expenditure side is likely to be slightly in excess of £½ billion.

On the receipts side, total tax revenues are likely to exceed the Budget forecast by almost £2½ billion. This buoyancy reflects higher than forecast economic growth, greater than expected profitability, and an oil price above the \$15 a barrel assumed at the time of the Budget.

At that time, I set a Public Sector Borrowing Requirement for 1987-88 of some £4 billion, or 1 per cent of GDP. As a result of the higher tax revenues and lower spending, I now expect the PSBR for the current financial year to be only £1 billion, or ¼ per cent

of GDP: the third successive year of significant undershoot. Privatisation proceeds have, of course, made an important contribution to this year's low PSBR. But even if there had been no privatisation proceeds at all, it would still be the lowest PSBR for 17 years.

I turn now to the public expenditure plans for the next three years.

Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national income. There is likely to be a further substantial reduction this year, which will make this the longest sustained fall in public expenditure as a proportion of national income since the early 'fifties.

In July, Cabinet reaffirmed the objective of ensuring that public spending as a share of national income continued to fall and in particular did not exceed the ratios published in the last White Paper. The plans that I am about to announce secure that objective.

New planning totals have been set at £156½ billion for 1988-89 and £167 billion for 1989-90, increases of £2½ billion and £5½ billion respectively over the totals previously published. For 1990-91 the planning total has been set at £176 billion.

For the later years, I have judged it prudent to set aside larger Reserves within the planning totals than I have done previously. The Reserves will therefore rise from £3½ billion in 1988-89, to £7 billion in 1989-90 and £10½ billion in 1990-91.

The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

As I have indicated, these plans mean that public spending, excluding privatisation proceeds, will continue to fall as a share of national income. From nearly 47 per cent in 1982-83, that share has come down to around 42½ per cent this year, and by 1990-91 will

be down to 4½ per cent, the lowest since 1972-73. The new proportions are lower, for each year, than those published in the last White Paper.

This progress has been founded on our success in reining back the rate of growth of public spending. In the 1960s and 1970s public spending grew by around 3 per cent a year in real terms. In our first Parliament the real rate of growth averaged 2½ per cent a year; in our second Parliament it was just under 1½ per cent; and in the succeeding four years, that is the current year plus the three Survey years, the real growth of public spending is planned to be around 1½ per cent a year, well within the prospective growth of the economy as a whole.

But while public spending as a whole is growing more slowly, the substantial reduction in public borrowing this Government has brought about, has, by reducing the burden of debt interest payments, made more room for programme spending. The Government has, therefore, once again been able to provide additional resources for a number of priority services. In each case, the figures I am about to give represent increases over the plans published in the last Public Expenditure White Paper.

First, health. An extra £700 million is being provided for the National Health Service in England in 1988-89, and an extra £800 million in 1989-90. On top of this the Health Service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

Second, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my right hon. Friend the Home Secretary announced to the House in July. This will provide 4,200 extra places by 1993. Provision for local authority spending on the police has also been increased significantly.

Third, education. Provision for local authority current spending has again been increased substantially. In addition, an extra

£60 million a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115 million in 1988-89 and by £130 million in 1989-90. There will also be an additional £45 million in 1988-89 and £65 million in 1989-90 for science.

Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation, but will also provide additional resources for housing associations, much of it to be used in conjunction with private finance. Provision for Urban Development Corporations is being increased by £65 million next year, to help tackle the problems of the inner cities.

There are also substantial increases in provision for social security spending, which has been increased by £1 billion for 1988-89 and £1.9 billion for 1989-90. This is partly because the take-up of benefits is likely to be higher than was previously envisaged. It also takes account of the uprating of benefits announced by my right hon. Friend the Secretary of State for Social Services last week, including the cost of compensating income support claimants for their average contribution to rates.

Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.

The additions to planned capital expenditure, for the public sector as a whole, amount to some £1 billion in each of the next two years. About half of this is for the nationalised industries, principally for the large scale investment programmes of the electricity and water industries.

Further information about these and other changes is contained in the printed Autumn Statement which will be available from the Vote Office as soon as I have sat down. Full details, together with information on running costs and manpower, will be given in the Public Expenditure White Paper early in the new year.

I turn now to National Insurance contributions.

The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my right hon. Friend the Secretary of State for Social Services made on 27 October.

The Lower Earnings Limit will be increased next April to £41 a week, in line with the single person's pension, and the Upper Earnings Limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent and 7 per cent bands will be raised to £70 a week and £105 a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £155 a week.

The taxpayer's contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced from 7 per cent to 5 per cent, but this will not require any change in contribution rates. Thus, the main Class I contribution rates will once again remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

Finally, I turn to the Industry Act Forecast.

Growth this year looks to be turning out at 4 per cent, compared with the 3 per cent growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981, and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry is doing particularly well, with output rising by 5 per cent.

This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago - the largest annual fall on record. Indeed, unemployment has been falling faster in the UK than in any other major country.

As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see

no need to amend my Budget forecast of a modest current account deficit of some £2½ billion, or about ½ per cent of GDP.

Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. As I have already indicated, the full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets insofar as it is possible to do so at this early stage. This is clearly a time when economic forecasting is a more than usually hazardous business. But what is clear is that the strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm. And that strength will also enable us to play a full part in the international co-operation which is more than ever needed today.

Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North Sea oil output now declining, this implies 3 per cent growth for the non-North Sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. Business investment is likely to be particularly strong, rising by 5½ per cent.

With the UK continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¾ per cent of GDP.

Inflation may rise a little next year, reaching 4½ per cent in the fourth quarter, by which time it should be on a downward trend again. The defeat of inflation remains at the heart of the Government's economic strategy.

With continuing healthy growth in 1988, unemployment should continue to fall.

The progress and prospects I have described demonstrate once again the soundness of the policies we have followed over the past two Parliaments. We will continue to pursue these policies in our third. Despite the recent deterioration in the world economic climate, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with inflation low and unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.

Conservative Research Department Brief

AUTUMN STATEMENT

Prepared For:

Chancellor's Statement in the House of Commons
on Tuesday, 3 November 1987

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THE AUTUMN STATEMENT

Key Points

1. The prospects for 1988 are for further sustained growth, steadily rising living standards, a further fall in unemployment, and low inflation. The forecast takes into account the likely effect of the recent worldwide falls on equity markets.
2. A further substantial decline in the share of national income taken by public spending is expected this year. The decline has been taking place since 1982-83 and will be the longest sustained fall in public spending as a proportion of national income since the early 1950s.
3. Plans for public spending in the three Survey years continue to show spending falling as a share of national income. By 1990-91, on these plans, spending will be down to 41¼ per cent of GDP, the lowest since 1972-73. The new public spending/GDP ratios are lower for each year than those published in the last White Paper.
4. The Public Sector Borrowing Requirement is expected to be £1 billion this year, compared to £4 billion set at budget time. This implies the lowest Government borrowing for 17 years, even if the contribution of privatisation proceeds is excluded.
5. The substantial reduction in public borrowing which the Government has brought about has reduced debt interest and made more room for spending on programmes. Additional resources have been made available for a number of priority areas such as health, education, law and order, and housing.

Plans for Public Expenditure

In July, Cabinet reaffirmed the objective of ensuring that public spending would continue to fall as a share of national income and that the ratios of public spending to national income set out in the last White Paper would not be exceeded.

The new planning totals secure these objectives. The totals have been set at £156¼ billion for 1988-89 and at £167 billion for 1989-90, increases of £2½ billion and £5½ billion respectively over the totals previously published. For 1990-91 the planning total has been set at £176 billion. The Chancellor has provided for substantially larger reserves for the latter two years of the Survey, of £7 billion and £10½ billion compared with the £5½ billion and £7½ billion in this year's White Paper.

On these plans public spending, even excluding privatisation proceeds, will continue to fall as a share of national income. It has come down this year to around 42½ per cent from nearly 47 per cent in 1982-83. By 1990-91 it will be down to 41¼ per cent, the lowest since 1972-73. The new ratios set out in the Autumn Statement are lower, for each year, than those published in the last White Paper.

Public spending is under control. For this year plus the three survey years the real growth of public spending is planned to be around 1¼ per cent a year. By contrast, in the 1960s and 1970s it grew at around 3 per cent a year in real terms. In the Government's first term of office the real rate of growth averaged 2¼ per cent a year; in the second term just under 1¼ per cent.

Increases in Priority Areas (For further details see Annex)

The substantial reduction in public borrowing brought about by this Government is also reducing the real burden of debt interest payments, helping make more room for spending on

priority programmes:

- An extra £700 million is being provided for the NHS in England in 1988-89.
- Provision has been made for an acceleration in the prison building programme which will provide an extra 4,200 places by 1993.
- Provision for local authority current spending on education has again been increased substantially. Spending on the universities will be increased by £115 million in 1988-89. An extra £60 million a year has been provided for improvement of school buildings.
- The science budget has been increased by £45 million in 1988-89 and £65 million in 1989-90.
- Gross provision for housing investment is being increased by nearly £400 million next year. For the inner cities resources are being made available for Housing Action Trusts and Urban Development Corporations.
- Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.
- Social security spending has also been increased substantially, by £1 billion in 1988-89 and £1.9 billion in 1989-90.
- The additions to planned capital expenditure, for the public sector as a whole, amount to about £1 billion in each of the next two years.

The Expenditure and Borrowing Outturns for 1987-88

This year public spending is now likely to amount to £147½ billion, about £1 billion less than allowed for in last year's Public Expenditure White Paper. This shortfall can be attributed to higher capital receipts from local authorities and new towns. Apart from this, total spending on programmes is expected to be broadly in line with plans. After taking account of miscellaneous items not in the planning total, the shortfall on the expenditure side is likely to be slightly in excess of £½ billion.

Total tax revenues are likely to exceed the budget forecast by almost £2½ billion. This buoyancy reflects higher than forecast economic growth, greater than expected profitability and higher than expected oil prices.

The Public Sector Borrowing Requirement (PSBR) for the current financial year is now expected to be only £1 billion, or a ¼ per cent of GDP, compared to £4 billion or 1 per cent of GDP, set at budget time. This is the third successive year of significant undershoot in borrowing. This represents the lowest PSBR in relation to GDP for 17 years even without taking account of privatisation proceeds.

National Insurance Contributions

The main Class 1 contribution rates will remain unchanged for the fifth year running, at 9 per cent for employees and 10.45 per cent for employers.

Industry Act Forecast

The prospects for 1988 are for a continuation of steady growth, and low inflation.

The forecast takes account of the recent sharp falls in share prices throughout the world but their effects remain uncertain and there is therefore a greater margin for error than usual in the forecast. However the strength of the British economy and the public finances leaves Britain extremely well placed to tackle any problems that lie ahead.

Growth this year is likely to turn out at 4 per cent compared with 3 per cent forecast at budget time. The strong growth in domestic demand has been more than matched by the rapid rise in exports and manufacturing industry is doing particularly well from this, with output rising by 5 per cent. Next year growth is forecast to be $2\frac{1}{2}$ per cent.

Domestic demand should continue to expand, though at a slightly slower rate than this year. Business investment is likely to be particularly strong, rising to $5\frac{1}{2}$ per cent. Faster growth than that of our trading partners, along with the declining oil surplus, is likely to lead to a further small increase in the current account deficit, to about £3½ billion or $\frac{3}{4}$ per cent of GDP.

Unemployment has been falling faster in the UK than in any other major country. It is now more than 400,000 lower than a year ago, the largest annual fall on record. With continued growth forecast for 1988 unemployment should fall further.

Inflation is expected to remain low. The RPI may temporarily reach $4\frac{1}{2}$ per cent at the end of 1988 but should be on a downward trend again by then. The defeat of inflation remains at the heart of the Government's economic strategy.

ANNEX: THE PROGRAMMES

Education. Provision for the DES in 1988-89 is up £1300 million over plans for 1987-88, an increase of 7.8 per cent, enabling full implementation of this Government's education reforms.

Teachers' pay has been increased 16.4 per cent in 1986-87 of which 8.2 per cent was paid on 1 October 1987. The Interim Advisory Committee on teachers' pay is considering the 1988-89 pay award.

£60 million has been made available for capital works to school buildings. In England, capital allocations for education will rise to £369 million in 1988-89, 24 per cent higher than in 1987-88.

£61 million is being made available for academic restructuring in the universities this year, and a further £56 million for the academic pay award announced in March this year.

The science budget, including AIDS research, has been increased by £47 million, providing for an increase in research funding, a pilot programme of research centres in the universities, and for the British Antarctic Survey.

Inner Cities. Total urban block expenditure by DOE of £495 million is planned for 1988-89, including an increase of £50 million on previous plans. Over £200 million will be available each year for the next three years for Urban Development Corporations, with an increase of £65 million on previous plans for next year.

Achievements in the inner cities are already substantial. Over £2.2 billion of private investment had been attracted to London Docklands Development Corporation by 31 March this year; Urban Development Grant investment of £120 million has stimulated a further £490 million of private investment helping build 3,670 new homes and many refurbishments; over 2,500 acres of derelict land have been reclaimed; urban programme spending has increased by over 70 per cent in real terms since 1978-79, improving nearly 2,000 vacant or under-used buildings and improving 4,200 thousand acres of unsightly land.

Housing. Gross capital provision has been increased by £384 million in 1988-89. This will enable local authorities to spend over £130 million more than this year (1987-88) on capital and will enable the Housing Corporation to spend nearly £50 million more on housing association homes for rent.

The necessary funds are now allocated to finance the Government's initiatives on housing. In 1988-89 £5 million will be made available to Housing Action Trusts, increasing to £50 million in 1989-90, and £70 million in 1990-91, to regenerate run-down estates, and widen opportunities for tenants and to attract private investment.

Roads and Transport. Provision has been increased by £60 million over plans in 1988-89. This will enable the Government to sustain a high level of cost effective investment in Britain's transport, bringing vital economic benefits. £15 million a year has been made available for maintaining bridges.

By 1988-89 capital spending on motorways and other trunk roads will be about 30 per cent higher in real terms than in 1978-79. More than 680 miles of new motorway and trunk road has already been completed. By contrast capital spending on roads fell by 40 per cent in real terms under the last Labour Government.

The Government is now getting far better value for money. On average 6 miles of road are now bought for the price, in real terms, of only 5 miles in 1978-79.

Health and Personal Social Services. Provision for 1988-89 has been increased by £810 million or 4 per cent, on last year's plans. This increase includes £700 million for the National Health Service and £100 million for local authority expenditure for personal social services. For the NHS this represents the largest ever cash increase, £700 million, compared with £310 million in the 1986 Survey and £250 million in 1985.

Spending on the NHS is now up over 31 per cent in real terms between 1978-79 and 1987-88. This increase has enabled an increase of 5,400 doctors and dentists and an increase of 53,700 nurses and mid-wives. The increase just announced will reinforce the initiative to reduce waiting lists. Those health authorities facing major transitional costs in restructuring their services will benefit from the bridging fund which is to be continued for a further two years.

£50 million has been earmarked to help develop prevention, counselling and diagnostic services for AIDS, and to increase the contribution towards the cost of treatment in hospitals and in the community for those with AIDS.

The Government will be publishing a White Paper on Primary Health Care (the family doctor, dental, pharmaceutical and opticians' services) later this month.

A record number of patients are now being treated. On most recent figures (1986 compared with 1978) there are over a million extra in-patient cases, up 19 per cent; over 490,000 more day cases, up 87 per cent; over 3.75 million more out-patient attendances, up 11 per cent.

Capital spending on the Health Service has risen by 44 per cent in real terms since 1978-79. By contrast it fell by 30 per cent under the last Labour Government. This is financing the £3 billion building programme involving 480 major schemes.

Defence. For 1988-89 and 1989-90 provision has been increased by £230 million and £490 million respectively to allow greater scope for dealing with pressures on the programme. As a proportion of GDP, UK defence expenditure is second only to the US among the major NATO allies. On NATO definitions, the UK spends a higher proportion of the defence budget on equipment than any other European member of NATO.

Within this higher provision better value for money is being obtained. Competition has been increased in procurement. Savings estimated at £30 million a year are being achieved by contracting out support services.

Social Security. Total benefit expenditure in 1986-87 is up by 40 per cent in real terms since 1978-79.

£320 million extra is going through Family Credit and Income Support to help low income families with children. This greatly exceeds the saving on Child Benefit (£120 million). Around 470,000 are now expected to benefit from Family Credit (200,000 are now on Family Income Supplement). Householders who are Income Support claimants will receive the average amounts (£1.30 a week for most claimants) which they will have to pay next April as their minimum contribution to domestic rates.

The 1988 benefit uprating keeps pensions fully in line with inflation. It represents a cash increase of almost £35 a week for a couple since 1978-79, and adds nearly £800 million to the social security budget in 1988-89.

Employment. Provision for 1988-89 has been increased by £50 million over previous plans, running at over £4 billion a year.

The employment programme has nearly doubled in real terms under this Government. About 3½ million people have been helped by employment measures and the YTS since they began. In addition 2½ million people unemployed for more than six months have been offered help from Restart.

The Government programmes are targeted to the long term unemployed and the young. For the long term unemployed (6 months plus) Government spending is running at about £1.3 billion a year. In the year to July 1987 the number unemployed over one year has fallen by 110,000.

For young people the Government has taken radical steps to improve the transition from school to work - UK youth unemployment is below the European Community average and falling fast.

Energy. Electricity external financing limits have been increased, much of it for investment in new capacity. To increase the industry's low rate of return and help finance this new investment programme an improvement in profitability

is needed. Over the past 5 years, electricity prices have fallen by 15 per cent in real terms and domestic prices are now the lowest in Europe.

Productivity in the coal industry is up over 15 per cent for the first six months of 1987-88 compared with the same period last year. British Coal is aiming to break even in 1988-89. The increase in the provision for miners' redundancy reflects the progress being made on rationalising and streamlining the industry.

Agriculture. The £2½ billion programme for next year demonstrates the Government's commitment to support for agriculture. The Government is taking the lead in pressing for reform of the CAP and in particular for the introduction of effective budgetary stabilisers in each commodity regime.

Law and Order. Provision for the police has been increased by £240 million for 1988-89 over previous plans. Between 1978-79 and the third year of current plans spending on law and order will have increased by 65 per cent in real terms.

Provision for the police will allow a further 800 officers next year, implementing the 4 year programme of increases in police manpower announced in May 1986. Since 1979 11,800 extra officers have been deployed.

Provision for the prison building programme has also been increased by £60 million next year. The programme as a whole will enable 4,200 additional prison places to be provided by 1993. It will accelerate the existing programme for the building of 20 new prisons.

Overseas Aid. Increases of £30 million in 1988-89 and £60 million in 1989-90 will allow the aid budget to grow in real terms. If the Chancellor's sub-Saharan debt initiative gains international acceptance further sums will be distributed to meet costs.

Arts and Libraries. Provision in 1988-89 will represent a 21 per cent increase in real terms since 1979-80. The plans fulfil the Manifesto's pledge to maintain taxpayers' support for the arts and will also provide funding for further initiatives such as the Business Sponsorship Incentive Scheme. This has already generated over £14 million of additional funding from the private sector since its inception in 1984.

Nationalised Industries. The financing requirements of nationalised industries are planned to decline over the Survey period. This will build on the substantial achievements since 1979-80. Since then external finance has been reduced by around £2½ billion. Investment is currently around £4½ billion and is expected to rise to around £6 billion by 1990-91.

Local Authorities. The plans for current spending in 1988-89 provide for most non-ratecapped local authorities to increase spending from 1987-88 budgets by 4 to 5 per cent, broadly in line with the forecast GDP deflator. This should enable local authorities to keep rate rises broadly in line with inflation in 1988-89. Gross provision for local authority capital spending has been increased by £600 million on previous plans.

MR HUDSON

Maura
1 SA find
out what's
going on
here

FROM: D SAVAGE
 DATE: 3 November 1987

1 Alex
2 Pwo

cc: Mr Evans
 Mr Sedgwick
 Mr Matthews
 Miss O'Mara
 Mr Allen ✓
 Mr Tyrie

Chancellor's Office

AUTUMN STATEMENT: GROWTH FORECASTData for the year so far

The latest data are for 1987Q2. Over the year to that quarter, real GDP increased by 3.8 per cent in the UK (on the average estimate) and by 3.2 per cent in Canada (on its expenditure estimate).

2. However during the first half of this year (from 1986Q4 to 1987Q2) Canada has grown more rapidly than the UK (by 6 per cent, at an annual rate, against 3½ per cent).

Forecasts for year as a whole

3. The last OECD forecast (published in June) for 1987 as a whole showed growth of 3½ per cent for the UK and only 2½ per cent for Canada. The more recent IMF forecast (published in October) showed a marginally higher growth rate for Canada (3.5 per cent against 3.4 per cent for the UK).

4. The Autumn Statement forecast for the UK is 4 per cent. This is higher than the IMF forecasts for any of the other major seven countries.

Conclusion

5. We should probably avoid the statement that the UK is currently the fastest growing. We can claim that, among the major seven, the UK is likely to have the fastest growth rate this year.

David Parry

D SAVAGE

pmp

FROM: MISS M O'MARA

DATE: 3 November 1987

CHANCELLOR OF THE EXCHEQUERcc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr R I G Allen
Mr Hudson
Mr Cropper
Mr Call
B/002**AUTUMN STATEMENT AIDE MEMOIRE : PUBLIC EXPENDITURE**

As promised, I attach a slightly revised version of the aide memoire which we have now been able to check against the full brief. The **only amendments** (side lined) **are to the sections on health, law and order and defence but we have thought of one or two more questions, notably on the inner cities.**

The key "awkward question", of course, is on **electricity prices**. The note below simply reflects the position as of last night. You and others have received separate briefing from PE and will know what Mr Parkinson is to say in his statement this afternoon.

MOM

MISS M O'MARA

PUBLIC EXPENDITURE

General

Planning totals

1988-89	1989-90	£billion 1990-91
156.8(+2.6)	167.1(+5.6)	176.1

Increase over 1987 PEWP in brackets

1987-88 estimated outturn: £147.6 billion. (Underspend of £1 billion on 1987 PEWP and FSBR, more than accounted for by higher LA and New Towns capital receipts.)

Reserves

1988-89	1989-90	£billion 1990-91
3.5	7.0	10.5

Reserves for two later years higher than for any year since introduction of cash planning.

Privatisation proceeds

£5 billion in all 3 years, as in 1987 PEWP.

Effect of BP market support operation: Privatisation proceeds estimate of £5 billion in 1987-88 assumes full proceeds of first instalment of BP share offer. If some of BP shares were purchased by Bank of England Issue Department and still held by it at end of financial year, effect would be to reduce privatisation proceeds and increase planning total, GGE and PSBR by same amount.

Growth of GGE

Real expenditure growth on declining trend

GGE (excluding privatisation proceeds) to increase by $1\frac{1}{4}$ per cent a year 1986-87 to 1990-91.

Compares with

3 per cent in decade to 1978-79

$2\frac{1}{4}$ per cent in first Parliament (1978-79 to 1982-83)

$1\frac{1}{4}$ per cent in second Parliament (1982-83 to 1986-87).

GGE for 4 years from 1986-87 growing at faster real annual average rate ($1\frac{1}{4}$ per cent) than in 1987 PEWP (1 per cent).

BUT GGE as percentage of GDP significantly lower than in 1987 PEWP over same period.

Increase in plans lower than increase in money GDP.

Big increase in spending in 1989-90 (real increase in planning total of 2.9 per cent)

- Year on year movements bound to vary (EC contribution in 1989-90 £700 million higher than in 1988-89). So look at trend.
- Normally accused of offering restraint in future but increases today. This time, underspending in current year, with large reduction in GDP ratio in 1987-88 and 1988-89, but prudent provision for future years, including large Reserves.

Future figures unrealistic

- Despite likely underspending of £3.5 billion Reserve in 1987-88, Government retaining same figure for 1988-89. For later years, larger Reserve than in any year since cash planning introduced.
- To extent unemployment falls below 2.6 million conventional assumption for next 3 years, could be social security saving.
- LA figures reflect 1987-88 budgets and allow for continuing increase.
- Average overspend in last 5 years compared with previous year's PEWP only $\frac{3}{4}$ per cent ($\frac{1}{4}$ per cent excluding coal strike year).

CG spending rising faster than LA spending

- CG spending includes demand-led social security and enormous health and defence programmes. $\frac{1}{2}$ per cent increase on social security programme worth £ $\frac{1}{4}$ billion.
- LA current spending will have grown 5 per cent a year in real terms between 1985-86 and 1987-88 - much faster than CG. (Total LA spending grown more slowly because of high receipts from council house sales.)

Comparison with Labour Government

- 13 per cent increase 1974-75 on 1973-74
- Led to IMF and savage cuts.
- Total spending 4 per cent lower in real terms in 1978-79 than 1976-77.

So highly volatile.

Ratios

GGE (excluding privatisation proceeds) as percentage of GDP

1987-88	1988-89	1989-90	1990-91
42½	42	41¾	41¼

- Peaked under this Government at 46¾ per cent (1982-83). (48½ per cent in 1987-76.)
- Lower path than implied in 1987 PEWP.
- Growth in expenditure well within growth of economy as whole.
- 41¼ per cent ratio in 1990-91 will be lowest since 1972-73.

Only tiny fall in GDP ratio after 1987-88

Still 1¼ percentage point fall in ratio over 3 years, on top of step change in 1987-88.

Main changes since 1987 PEWP

	1988-89	1989-90	£million
<u>Increases</u>			
Social security	+1,000	+1,900	Mainly estimating increases.
Health Service (England)	+ 700	+ 790	NHS only - grouped with personal social services in AS tables.
Education	+ 630	+ 800	DES programme (mainly England). Includes universities and science and LA spending on schools and colleges.
Law and order	+ 360	+ 450	Home Office programme (generally E&W). Includes prisons and LA spending on police.
Defence	+ 230	+ 490	
<u>Decreases</u>			
Agriculture	- 180	- 160	Lower cost of market support under CAP.
Housing	- 10	- 100	Higher capital receipts.
FCO (Diplomatic Wing)	- 10	- 10	Reduced cost of overseas operations.

Increases

(a) Government priorities

Health

Bull points

- Provision for Health and Personal Social Services up 6 per cent in 1988-89 on estimated outturn for 1987-88 (4 per cent up on 1987 PEWP plans for 1988-89). Provision in 1989-90 up 4½ per cent on PEWP plans.
- Largest ever increase for NHS (£700 million) in 1988-89. Spending on NHS up over 31 per cent in real terms between 1978-79 and 1987-88.
- Additional provision for Hospital and Community Health Services will meet consequential costs of 1987 pay awards and increased demand, contribute to extra costs of AIDS and allow for service improvements.
- Plans allow for expected demand costs of Family Practitioner Services to be met in full.
- Bridging fund: Extended for 2 more years (£15 million in both 1987-88 and 1988-89) to help overcome transitional resource allocation problems in those regions where spending growing at less than national average rate.
- Hospital and Community Health Services capital spending up 44 per cent in real terms 1978-79 to 1987-88 (fell 30 per cent under Labour Government). £3 billion building programme: (over 100 of 480 schemes currently under way will be completed by 1991.) Spending supplemented by sales of surplus land and buildings (£200 million in 1987-88).
- Since 1979, number of directly employed doctors and dentists in England up over 5,000 (September 1986), nurses and midwives up nearly 54,000 (March 1987).
- | Record number of patients being treated. In 1986, as compared with 1978, over 1 million (19 per cent) extra in-patient cases, 490,000 (87 per cent) more day cases, and 3.75 million (11 per cent) more outpatient attendances.

Awkward questions

Only 2.1 per cent real terms growth in health service in 1988-89

But increase in 1987-88 of 4 per cent in real terms was much higher than 1987 PEWP plans (2.4 per cent).

Health costs rise faster than GDP deflator

GDP deflator more relevant because measures cost of programme to economy. But on top of published net provision, health authorities can retain benefit from cost improvement programmes (£150 million in 1987-88 alone), income generation (eg franchising for shops on hospital premises) and other income (about £90 million in 1988-89), mainly from private patients' charges.

Charges

- (a) Existing: Matter for Secretary of State. But no responsible Government can rule out any alterations for ever.
- (b) New: Wait for White Paper on Primary Health Care later this month.

AIDS

Estimate RHAs will spend £30 million in 1987-88 of which Government making £12 million available centrally to health authorities.

Additional Government contribution of £50 million to health authorities in 1988-89.

NB Additional £6 million in 1988-89 and £8 million in 1989-90 to MRC for AIDS research announced last winter.

Waiting lists: Provision to help reduce lists extended to 1989-90 and 1990-91, with additional £5 million in 1988-89.

Education

Bull points

- Central Government provision for 1988-89 7.8 per cent higher than PEWP plans; and 3.9 per cent higher in real terms than 1987-88 estimated outturn. Future years follow broadly same pattern as 1988-89.
- LA current: Provision for real increases in spending on books and equipment (full allowance for GCSE implications) and repairs and maintenance; additions for secondary school libraries and for meeting demands in further and higher education.
- National curriculum: New provision of £9 million in 1988-89, rising to £33 million by 1990-91, to support introduction and finance assessment and testing.
- Maintained sector capital: Increase of £60 million in 1988-89 over PEWP allows 24 per cent increase in capital allocations for LEAs over 1987-88 levels. Together with provision agreed in 1987 PEWP, will allow £250 million programme (1988-89) of improvements to LA and voluntary school buildings, making significant contribution to eliminating improvements backlog.
- Universities: Additional provision of £56 million (1988-89) and £71 million (1989-90) to cover academic pay restructuring settlement, plus £61 million (1988-89) and £60 million (1989-90) for restructuring fund. Provision in 1990-91 7 per cent higher in real terms than in 1986-87.
- Polytechnics and colleges: 9 per cent increase in Advanced Further Education Quantum over 1987-88 Quantum.
- | Science: Addition of £47 million (rounded in Oral Statement to £45 million) in 1988-89 over PEWP (1.3 per cent real) and £65 million in 1989-90. 1988-89 planned provision at all-time peak in real terms (up 13.7 per cent real from 1981-82 low).

Awkward questions

No real increase in 1988-89 on estimated 1987-88 outturn

- LAs spent above planned level in 1987-88. Reduces increase between 1987-88 estimated outturn and 1988-89 plans.
- 1987-88 spending also inflated by back pay for teachers relating to 1986-87. Real increase would have been 1.2 per cent higher if paid in year in which accrued.
- But still 3.9 per cent real increase for CG education expenditure between 1987-88 and 1988-89. Clear reflection of Government's policies.

Government berating LAs for overspending but claiming credit for increasing education spending

Provision in plans reflects Government decisions; not simply validating LA pressures. But equally true that LAs could secure far better value for money. Audit Commission identified potential savings on LA current education spending of £ $\frac{3}{4}$ -1 billion, including most recently £500-700 million a year from rationalising provision in response to falling secondary school rolls.

Law and order

Bull points

- Spending set to increase 65 per cent 1978-79 to 1990-91. Provision broadly level in real terms over next 3 years.
- | Increased provision for police (£240 million in 1988-89; £280 million in 1989-90). Allows for further 800 extra officers in 1988-89 (300 in Metropolitan Police). (Since 1979, increase in police manpower of 18,500, of which 11,800 are extra officers.)
- Increase provision for prison building (£60 million in 1988-89; £92 million in 1989-90) allows 77 per cent real terms growth 1987-88 to 1990-91 for prison building programme. 4,200 additional prison places to be provided by 1993. Provision also for accelerating existing programme of 20 new prisons.
- Increased provision for fight against drugs (£3 million in each of next two years); crime prevention (£1 million in each of next two years); National Drugs Intelligence Unit; establishment of new national crime prevention organisation.

Awkward question

Need for extra prison staffing?

Existing provision allows for recruitment of extra staff to man new accommodation. 750 basic grade extra staff being recruited in 1987-88, plus greater use of prison auxiliaries and night patrols. Extra cost will be met from savings obtained by more efficient working practices introduced as result of "Fresh Start".

Defence

- | Provision increased by £230 million (1988-89) and £490 million (1989-90) to allow some greater scope for dealing with pressures on programme, following end of UK's period of commitment to NATO real growth target.
- Over period of commitment to NATO target (1978-79 to 1985-86), real increase of about 28 per cent in programme.
- In absolute terms and per head, level of UK defence expenditure among highest in Western Europe.
- As proportion of GDP, UK defence expenditure second only to US among major NATO allies.
- On NATO definitions, UK spends higher proportion of defence budget on equipment than any European member of NATO.

Awkward questions

Increases in provision show earlier plans misconceived?

Marginal adjustment only - additions less than 2 per cent of cash provision on average in two years 1988-89 and 1989-90.

Defence review?

Will still need to pursue value for money and make difficult choices on defence priorities. But nothing new.

Trident

Nothing new in fitting large procurement programmes into defence budget. Trident smaller than Tornado aircraft programme. Expenditure on Trident will be spread over 18-20 years. Accounts on average for only about 3 per cent of overall defence budget and about 6 per cent of equipment budget. Current estimated cost less than £10 billion. But over 18-20 year procurement period, UK will be spending total of about £150 billion on equipment.

Inner cities

Bull points

- DOE urban block total expenditure up £50 million a year on plans for both 1988-89 and 1989-90. Includes increase for UDCs of nearly £70 million a year on 1987 PEWP plans for both 1988-89 and 1989-90.
- Urban programme expenditure in England increased over 70 per cent in real terms 1978-79 to 1987-88. Total urban block provision in 1988-89 nearly £500 million - more than double amount in real terms in 1978-79.

Awkward questions

Very little additional money for a priority programme

- Net increase for DOE programme of £50 million a year on PEWP plans.
- DTI Ministers have indicated want increased emphasis on inner city enterprise and business development within their programme. But details of DTI spending as whole will not be announced until New Year.
- Other Departments now giving inner city emphasis to individual programmes eg DE's 'Action for Jobs' and 'Headstart in the inner cities'.

Fall in Urban Programme and Derelict Land Grant provision shows lack of Government concern about inner cities

- Government has increased inner cities resources on DOE programmes £50 million a year in next two years compared with plans.
- Always recognised UDCs would substitute for some existing programmes eg DLG. Modest switch represents change in agent, not activity.
- Programmes will still be substantial, averaging nearly £300 million a year.

(b) Increases over which Government has little influence

Local authorities

(i) Current spending

- In 1987-88 up 3.7 per cent above 1987 PEWP plans. Provision for 1988-89 up 3.9 per cent on LAs' 1987-88 budgets (slightly below GDP deflator).
- Provision for 1989-90 and 1990-91 uprates England's provision by GDP deflator and adds comparable sums to 1987 PEWP plans for Scotland and Wales under block budget rules.

Awkward questions

Overspending inevitable in 1988-89?

No.

- After 11 per cent real increase in spending on average in GB in two years, no need for further real increase. LAs must get grip on pay and manpower (80 per cent of current spending).
- 1987, reform of teachers' pay entailed increase of 16.4 per cent. Should be much lower in 1988-89 because Interim Advisory Committee remit allows for increase of only £300 million (included in provision).
- Tougher RSG settlement for 1988-89 will discourage spending. (Grant up 6.2 per cent compared with 9.6 per cent in 1987-88.)
- As in past, LAs will lose grant if spend above settlement.
- Efficiency savings available of up to £2 billion identified by Audit Commission eg £250 million in central purchasing arrangements, £140 million in transport management. LAs can make further savings through contracting out.

Government validating excessive LA budgets?

No. Government bound to take account of LAs' expenditure in overall plans. But does not endorse overspending and will not bail out ratepayer in high-spending areas. LAs lose grant if they spend up. (English LAs losing £265 million in 1987-88.)

Rates

Rises in 1988-89 matter for LAs. But should be low, broadly in line with inflation if LAs spend in line with plans.

(ii) Capital spending

Underspending of £½ billion in 1987-88. For 1988-89, provision of £6.9 billion made for gross capital spending to continue broadly at level of 1987-88 outturn. For 1989-90 and 1990-91, gross provision of £6.8 billion and £6.7 billion.

Awkward question

No rise in gross spending.

Allocations and spending power from receipts are increasing. But non-prescribed spending is expected to fall, now that leasing has been prescribed. Gross spending in 1989-90 and 1990-91 will be reviewed in 1988 Survey.

Social security

- Overrun of £0.4 billion on 1987 PEWP in 1987-88.
- Up £1 billion (1988-89) and £1.9 billion (1989-90) on PEWP plans. Takes account of cost of uprating, including compensating income support claimants for average contribution to rates.
- Real terms increase in provision of about 4 per cent 1986-87 to 1990-91.

Bull points

- Expect to spend £200 million more in 1988-89 on weekly support for income support than if supplementary benefit weekly payments had been uprated. Spending further £200 million on top in transitional protection against cash losses.
- Total public expenditure in 1988-89 on income-related benefits estimated to be nearly £½ billion higher than in 1987 PEWP.
- Total benefit expenditure (including rate rebates: non-public expenditure) in 1986-87 up 40 per cent in real terms since 1978-79.
- Expenditure on benefits to long-sick and disabled up over 70 per cent in real terms 1986-87 on 1978-79.
- Government more than maintained commitment to protect pensions against inflation, despite about 800,000 new pensioners. Expenditure on elderly up 30 per cent in real terms 1986-87 on 1978-79.

Awkward questions

Child benefit: Freeze justified because

- Extra resources (£320 million in 1988-89) going to help families with children through Family Credit and Income Support; extra cost substantially more (£200 million) than CB saving.
- CB expensive. Cost £4.6 billion a year (10 per cent of social security expenditure). Each 10p extra would cost over 40 million a year.
- Higher CB gives no help to those on income-related benefits because these benefits are reduced if CB is increased. So increases in CB mainly benefit better off.
- Families better off in real terms because earnings increasing and income tax rates have been reduced. Between 1986-87 and 1987-88 weekly income married couple with two children on average male earnings will have increased, after tax and contributions, by 4 per cent in real terms.
- Decisions on level of CB in 1989-90 will be taken in 1988 Survey. [IF PRESSED: Programme does allow for increase in CB but need to balance money going to all mothers as CB against money going to low income families as Income Support and Family Credit.]
- No specific proposals at present to change nature of CB. But in view of costs (£4½ billion a year), Secretary of State has indicated need to keep under review.

Housing benefit

- Increase in rent taper on illustrative figures in White Paper saves £46 million a year.
- Overall, expenditure on HB will be about £½ billion lower in 1988-89 compared to 1987-88, largely through 20 per cent contribution to rates.
- Savings justified. Around 1 in 3 households now receive HB. Expenditure up from £1.2 billion in 1978-79 to £5.1 billion in 1986-87. Poorest (those on Income Support) will not be affected by rent taper change; steeper taper only applies to better off.

Decreases

Agriculture

Reduction of £180 million in 1988-89 and £160 million in 1989-90 on PEWP plans.

Awkward question

Fall in provision

Fall results mainly from reduced expenditure on CAP market support. Partly result of poor harvest in 1987 (reducing buying into intervention). Also reflects introduction of reforms in CAP of which UK has been major proponent.

Support for agriculture remains substantial in comparison with support for industry; public expenditure, as proportion of agriculture's contribution to economy, roughly 17 times that for manufacturing industry.

Housing

Net provision reduced by £14 million in 1988-89 and £104 million in 1989-90 compared with plans.

But receipts forecast to increase by £386 million and £394 million respectively. So planned gross spending higher than 1987 PEWP plans.

Plans provide for over £3.8 billion gross capital spending on housing in 1988-89. 11 per cent higher than previously planned and 4 per cent higher than expected 1987-88 outturn. Provision of £3.76 billion in 1989-90 and 1990-91.

Awkward questions

Gross capital spending in 1990-91 planned to be lower than in 1988-89. Government policy to reduce new build by public sector and encourage private sector provision because this increases freedom of choice. Housing provision better managed by attracting private investment. 161,000 private sector homes completed in GB in 1986 - highest number since 1973.

Backlog

1986 English House Conditions Survey (publication date not yet announced) will provide up-to-date information. Gross capital provision, totalling over £2.9 billion in 1988-89, will allow LAs to undertake essential work.

FCO Diplomatic Wing

Provision reduced by £10 million in 1988-89 and 1989-90. Reflects mixture of: increase in current spending on BBC External Services but provisional reduction in capital programme; reduction as result of changes in overseas prices and increase to cover about half cost of refurbishment of Old Public Offices.

Awkward questions

BBC External Services

- Provisional reduction in capital provision reflects current reappraisal of elements of 10-year audibility programme. Appropriate provision will be reinstated when reappraisal completed.
- On current spending, BBC's request for additional funding scaled down. But increases agreed will enable programme to grow at some 5 per cent a year; likely to be at least equal to rate of increase in index-linked licence fee for domestic services. Outcome assumes BBC make continuing efficiency savings and takes account of significant underspends in previous years. Expect existing levels of service to be preserved.

British Council

Increases on previous plans (more than 7 per cent in both 1987-88 and 1988-89) included in 1986 Autumn Statement. Programme already planned to rise by nearly 3 per cent in 1988-89. Small change included now to reflect higher rate of increase in overseas prices than earlier assumed.

Other programmes

Aid

- 3 per cent real terms increase planned in size of programme 1986-87 to 1990-91. (Maintained in real terms since 1982-83.)
- Enough to absorb likely costs of interest subsidy contribution to enhance IMF Structural Adjustment Facility and World Bank General Capital Increase, as well as allowing for increases in bilateral programmes.
- UK sixth largest among Western donors and has met UN target for official and private flows in every year (except one) since 1979.

EC institutions

- Overall deterioration in outlook mainly reflects lower assumed UK share of agricultural receipts and higher share of own resources payments. But forecast of net payments to EC institutions always very uncertain and subject to wide margins of error.
- Projection based on 1.4 per cent ceiling. Prime Minister made quite clear after Brussels European Council that before question of additional own resources could be addressed, must have agreement on effective and binding control over Community spending, particularly agricultural spending.
- Assuming no change in own resources structure, and continuation of Fontainebleau abatement system, increase in VAT ceiling to 1.6 per cent might increase UK net payments to Community institutions after abatement by up to £150 million a year.
- In real terms UK's annual average net contribution to Community Budget between 1980 and 1986 broadly same as between 1975 and 1979. Position under Labour Government would have been worse but for transitional arrangements. Financial Mechanism negotiated by Labour Government to reduce contributions did not produce 1 ecu of refunds. In contrast, Fontainebleau mechanism by end 1987 will have given UK over £2.8 billion of abatements. Abatement in 1988 Preliminary Draft Budget largest abatement/refund ever.

Because of abatement

- UK's VAT rate in 1987 Budget only 0.83 per cent compared with 1.35 per cent for Germany and 1.4 per cent for all other member states.
- UK share of Community own resources in 1987 (after abatement) likely to be only 16 per cent compared with 21 per cent before abatement.

Trade and Industry

- Increase of £260 million (1988-89) and £220 million (1989-90) on 1987 PEWP plans.
- Decision on details of programme still to be taken.

Government to abolish RDGs?

Position on various components, including regional assistance, will be made clear in New Year. Government remains committed to vigorous and effective regional industrial policy. Increased provision reflects, among other things, additional requirements for regional expenditure. DTI are not reviewing Assisted Area Map and all current DTI schemes remain open for business. But no area of Department's activity will be exempt from present review.

Nationalised industries

Electricity prices

For industry to decide in light of EFLs and financial targets set. Improvement in profits required to increase rate of return and for new investment programme. But reasonable for consumers to contribute to costs of new investment. Also scope for cost to savings to contain increases. Electricity prices fallen by 15 per cent in real terms over last 5 years. Domestic prices lowest in Europe.

Privatisation

External financing for water and electricity included in forward plans until firm sale dates set.

Employment

Rate of growth of employment programme now halted.

New measures introduced in January still in place. New totals show only small changes from 1987 PEWP. In any case

- over recent years DE programme increased share of public spending faster than any other major area;
- numbers planned to be helped by schemes will still be higher in 1988-89 than in 1987-88;
- labour market improving rapidly: fall of over 400,000 in year to September largest since current records began.

Job Release Scheme abolition

Take-up of scheme has been declining in recent years; impact on unemployment limited and does not target help on long-term unemployed either as group, or geographically. Money released can be used more effectively elsewhere.

New Worker Scheme abolition

Take-up of scheme much lower than expected when introduced in April 1986. No longer targetted on groups of unemployed most needing it: prospects for youngsters now much improved - UK youth unemployment below EC average and falling fast.

Transport

Additional provisions for roads very small

- On top of increase of £75 million in 1988-89 published in 1986 PEWP and further £14 million in 1986 Survey.
- National road spending planned to be higher in real terms in 1988-89 than at any time under present Government.
- Capital spending on motorways and other trunk roads in England planned to be about 30 per cent greater in real terms in 1988-89 than in 1978-79. Fell by over 40 per cent from 1973-74 to 1978-79.

Why provision for LA current spending on transport reduced? Reflects LAs' own current spending pattern. They decide on distribution of spending between services in light of own priorities and circumstances and must take responsibility for it. LA capital allocations £43 million (7 per cent) higher in 1988-89 than 1987-88; increase planned mainly for roads.

Maintenance

- Maintenance backlog on national roads planned to be eliminated by 1992. Some 80 miles of motorway and 200 miles of other trunk roads to be renewed each year to 1989-90.
- Local road maintenance is responsibility of LAs. Audit Commission Report suggests another £100 million worth of work could be obtained from same provision if LAs improved maintenance arrangements.
- Cost of roads has fallen on average 6 miles now for price, in real terms, of 5 miles in 1978-79.

Arts

NB **Principle of 3 year settlement not to be announced until 5 November.**

- Provision in 1988-89 £50 million (6 per cent) and in 1989-90 £60 million (7 per cent) higher than in 1987 PEWP. Provision in 1990-91 broadly stable in real terms.
- Provision in 1988-89 up 23 per cent in real terms since 1978-79. (CG provision up 45 per cent.)

Science and Technology

Government support for civil R&D inadequate?

No. Agreed increases of £200 million a year over PEWP plans all relate to civil R&D.

Territories

Why are growth rates for Scotland and Wales much lower for years from 1988-89 than in 1987-88?

- For 1987-88 Reserve largely been allocated. Scottish and Welsh totals reflect increases in programmes which have benefited from drawings on Reserve.
- For future years, Reserve unallocated.

Why is percentage increase in LA expenditure for Scotland in 1989-90 lower than for England and Wales?

Scottish increase lower because Secretary of State had to transfer resources (some £70 million) from elsewhere in his programme to fund generous 1988-89 RSG settlement announced last July (driven by higher overspending by Scottish LAs). Government hopes will not be repeated in later years.

Why is increase for central government expenditure in Scotland for 1988-89 low in proportion to Wales and Northern Ireland?

Reflects extent to which Secretary of State has had to switch resources to LAs to top up provision for cost of generous RSG settlement in 1988-89. Figures for later years show much higher increases for central government expenditure in Scotland.

Chancellor's Departments

- Up £160 million in 1988-89 and £180 million in 1989-90.
- IR up 8.9 per cent (1988-89) and 9.5 per cent (1989-90).
- C&E up 6.7 per cent (1988-89) and 10.4 per cent (1989-90).
- Treasury (excluding RGPD and MPO transfer) down 0.4 per cent in 1988-89 and 0.6 per cent in 1989-90.
- IR and C&E account for virtually all increases and over three-quarters of programme totals. Needed to strengthen controls on drug smuggling and meet increased workloads. Over one-third represents increased expenditure on LAPR and MIRAS to those below tax threshold.

Infrastructure

- Increase in plans for gross public sector capital spending likely to be about £1 billion in both 1988-89 and 1989-90. (Details of current/capital split still being worked out.) 1986-87 broadly level with 1978-79 in real terms (down 23 per cent under Labour Government).
- Housing capital (gross) up £380 million in 1988-89 and £280 million in 1989-90.
- Additions to other programmes:

	£ million	
	1988-89	1989-90
Other environmental services (gross)*	190	170
Education	70	90
Prisons	60	90
National roads	10	20

*includes capital spending by LAs, UDCs and New Towns

- Also additions to nationalised industries of about £½ billion in both 1988-89 and 1989-90, principally for electricity and water investment programmes.
- Health service capital up 41 per cent 1986-87 on 1978-79 (down 31 per cent under Labour).
- Motorway and trunk roads capital up 20 per cent (down 41 per cent under Labour).

Public sector capital spending declining as proportion of GDP? Yes. Government's policy is to reduce GGE as proportion of GDP, so bound to affect capital ratio too.

Capital spending falling as proportion of total public expenditure?

- Full details of capital/current split still being worked out. But no reason why capital should keep pace. Some areas where Government deliberately seeking to reduce role of state and increase role of private sector (eg new housing) are capital intensive.
- No target level of capital spending - concentrate on identifying individual worthwhile projects and making room for them within what is affordable public expenditure overall.

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You may like to see Brown's points on p. 3.
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GORDON BROWN/ JOHN REDWOOD - INTERVIEW ON AUTUMN STATEMENT

Transcript from: BBC Radio 4, World at One, 3 November 1987

INTERVIEWER: (NICK WORREL) I asked John Redwood first if he thought Mr Lawson in his approach would show his eye firmly fixed on a still shell shocked City of London?

REDWOOD: I think he should take note of the events of the last few weeks but I don't think we should relax all the controls over public spending simply because equity prices have gone through a sharp correction. I think the Chancellor is in a very strong position. If he keeps reasonable control over public spending he can then look at the situation come the Budget. And if he decides then that there is a threat of recessionary forces then of course he can take action at the time of the Budget, cutting taxes or even allowing a little supplementary spending.

INTERVIEWER: Gordon Brown, do you think that the City should just take it on the chin and wait and see what happens?

BROWN: I think what the Chancellor should do is adjust to the new economic realities. I think John Redwood's being a bit complacent and my suspicion is that the Chancellor will be this afternoon as well. I think we've got to face up to the fact that all the predictions about the international growth rate have had to be adjusted in the last few days. I think also that the Chancellor will have to make some adjustment to his previously optimistic statement about the growth rate for next year for the British economy. And what we would be looking for this afternoon, and I think this is an ideal opportunity that the Chancellor has that I hope he takes to face up to these new realities, is an adjustment in public spending which would mean an increase in public investment that would allow us to face the next year with the prospect of keeping unemployment down instead of it coming up. I think most of the predictions that have been made both

from the City and I'm sure from within the Treasury suggest that the growth rate will dip and unemployment may rise. We've got to prevent that. And interestingly enough the Chancellor this afternoon has the funds to do it. He's got the benefit of rising North Sea oil revenues and can afford to pay for it. And I hope John Redwood would repeat what he said on Sunday that there should be an increase in public borrowing to cope with what we now can anticipate as a downturn in growth.

INTERVIEWER: Would you repeat?

REDWOOD: Well no what I said on Sunday on a television programme was if the world economy fell 5% in terms of total output next year, which I said I thought was extremely unlikely, then yes we should anticipate having a higher borrowing requirement and I would be happy about borrowing some £5 or 6000 million in those circumstances. But I think today the Chancellor will be looking forward to a much better prospect than that. I think he will have to make a small downward reduction in his growth rate forecast. And I think he will have to also have to reduce his inflation forecast. Because I do think we are now looking at a much better inflation outlook than we were before. And I think Gordon Brown is being alarmist. The UK economy is still growing very strongly. It is about the best placed of all the major international economies in these difficult circumstances. And that is a great triumph for the Chancellor because his prudent management has left us able to weather these very difficult storms. .

INTERVIEWER: Surely Gordon Brown the prospect at the moment is that Mr Lawson can look forward to some rather buoyant revenues, there's no real reason for long term gloom is there?

BROWN: Yes, but very little of these revenues are to do with his good management. They're very much to do with his good fortune that oil prices in particular have risen faster than he expected. But again

we're having from Mr Redwood the sort of complacency that could lead us into trouble next year. Now as I understood it Mr Redwood on Sunday was suggesting that if the British economy was growing at just around 2%, which was the London Business School forecast, unemployment would rise and therefore there would be a need for a public spending injection. I think we can anticipate that now. And of course we are in a situation where the Chancellor has sufficient revenues to anticipate that and it makes good sense, for example, to invest in the inner cities and regions today and to spend more on investment in education and training, which is what the CBI has been asking for, and to spend more on research. Now these will aid the efficiency of the economy. They will also enhance social justice in some of the worst areas of the country. My fear is that the inner cities and regions which would bear the main brunt of any recession will soon move from a recession to a depression without having ever experienced a recovery.

INTERVIEWER: Can I ask you both finally for some sort of a precise guess as to what Mr Lawson is going to do, Gordon Brown first of all?

BROWN: I think we will see standstill budgets in most areas and significant cuts in some areas. And I think Mr Lawson has got to be asked this afternoon if he says the economy is so successful why is he cutting social security by I think about £500 million, cutting the health service needs by something in the order of a billion, cutting housing and cutting the budgets for the inner cities and regions. These are precisely the measures that will entrench us in a low growth rate and cause unemployment to rise. He has an opportunity to stop that this afternoon.

INTERVIEWER: John Redwood?

REDWOOD: Well that's just a different world from the real one. I think what we'll be listening to this afternoon is an increase in public spending of some £2500 million over the targets previously

announced and those targets themselves were targets representing some growth in public spending.

BROWN: as high this year? It's not a real increase at all.

REDWOOD: I've listened to all your erroneous figures.

INTERVIEWER: And we do have to be brief.

REDWOOD: Yes indeed, I think we will see increases on health expenditure which I think are needed and on education expenditure.

There will be some extra monies for the public sector pay awards which have been generous over the last year. And overall there will be modest growth in public spending which is appropriate at this stage in the cycle.

Chancellor
12/2

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CHANCELLOR - INTERVIEW ON AUTUMN STATEMENT

Transcript from: ITV CHANNEL 4, 7 - 8PM News, 3 November 1987

INTERVIEWER: (PETER SISSONS) ... Well earlier I spoke to Mr Lawson and put it to him that the optimism in his statement about unemployment and inflation might seem somewhat inconsistent in the atmosphere surrounding the worldwide stock market crash?

CHANCELLOR: No, I've taken the likely effects of this stock market fall throughout the world into account. And the forecasts that I've made, as I say, full take this into account. You will see that they do suggest that our rate of growth will be 2 1/2% next year compared with 4% this year.

INTERVIEWER: If that's the case how can you be certain that there will be continue to be more jobs?

CHANCELLOR: Well I think that if i'm right in the forecast for 2 1/2% which because North Sea oil is declining means that the non north sea economy, which is where most of the jobs come from, will be growing at 3% then certainly there will be not merely many more jobs but also unemployment continuing to fall. But I did say to the House today that because of the events of past 3 weeks economic forecasting by anybody, and I include myself in that, economic forecasting is a particularly hazardous business. But what I have given is the best forecast that I can at the present time.

INTERVIEWER: What could knock you off course of course is if the United States and Japan don't take the sort of action which you hope they'll take then your forecasts will be hazardous won't they?

CHANCELLOR: Certainly, if those actions are not taken the world picture will be less good. But the pressures to take those actions are very, very considerable and the American Administration and the Congress are locked in talks at this very moment in order to try to secure a reduction in the American budget deficit.

INTERVIEWER: You mentioned nothing today about the prospect of tax cuts in the Budget. Was there a reason for that?

CHANCELLOR: Yes, I never do at this time of year, it's far too soon to say always and, as I say, particularly at the present time when it's very difficult to see quite what the full effects of the stock market collapse will be. But I shall be able to make a much better estimate in February in advance of the Budget and I will base my Budget on that.

INTERVIEWER: But given the numbers that you've published today for public sector borrowing requirement and the level of public spending, the level of revenues, is there in theory any reason why you won't have the ability to bring the rate down to 25% in one go?

CHANCELLOR: It's certainly true that our public finances are stronger than they've ever been before and that this will help us as a nation to weather any storms there may be, the storms that you were alluding to a moment ago. I will bring down the basic rate of income tax to 25 pence in the £ just as soon as it is prudent to do so. But it is impossible at this stage to say what the prospect will be for the 1988 Budget.

INTERVIEWER: Isn't there a case perhaps for letting the PSBR rise against the background of the prospect of lower growth to give some stimulus to the economy?

CHANCELLOR: I shall obviously have to make a judgement about the appropriate level of the PSBR when I come to frame the Budget in the early months of the New Year and present it in the Spring. But you know it is an illusion to suppose that the route to growth is higher budget deficits. We have the fastest rate of growth of any major economy in the western world and we have been steadily reducing our Budget deficit and now have a PSBR which is tiny. The United States which has increased its budget deficit far too much is now in deep

trouble and so I am not, despite what the ¹Opposition are urging me to do so, I am not going to follow that path.

INTERVIEWER: The Contingency Reserves over the next few years one or two 'people have remarked on how big they are, are going up to £10 billion in 1990/91, is that the money for the next pre-election boom?

CHANCELLOR: No, it's funny you should say that because what is striking is that this year, which was an election year, we in fact secured a substantial fall in public expenditure as a share of the total economy and the public expenditure is in fact if anything running below the plans which I announced a year ago. No, the reason why I have put in these large reserves for future years is prudence, which has been my watchword throughout the time that I've been Chancellor.

INTERVIEWER: And yet, as you say that I'm told that the stock market is still going down. Does that surprise you?

CHANCELLOR: No, the stock market seldom surprises me because it is always difficult to predict. If one could predict it then anybody could be a millionaire very easily. But it is falling at the moment, has fallen today on both sides of the Atlantic, not dramatically but it has fallen.

INTERVIEWER: You say in the statement that the accompanies your Parliamentary statement inflation is expected to remain low.

It wouldn't do that would it if all industries were to increase their prices by twice the rate of inflation as the electricity supply industry is to be allowed to do so?

CHANCELLOR: Well electricity prices have been falling in real terms over the past 5 years. In fact they have fallen by 15% in real terms over the past 5 years. That's to say they've gone up 15% less than inflation. And that was because at that time there was no great

investment programme in the electricity industry. Now the electricity industry does have a substantial investment industry(sic) in new transmission lines, new power stations and the money has to be found to finance that. But what is very good about British industry is that its 'unit labour costs, which are the key to competitiveness, have this year gone up less than those of its rivals overseas. And that is an excellent record.

INTERVIEWER: What do you say to the President of the CBI who says that any facile talk of electricity price increases is quite unacceptable, they're unnecessary, British industry is paying up to 20% more than its competitors for power?

CHANCELLOR: Well I think that the chairman of the CBI if that's what he said should read very carefully the statement which Cecil Parkinson has made.

INTERVIEWER: Is this part of fattening up the electricity supply industry for privatisation?

CHANCELLOR: No it's nothing to do with that. It is, as I said, the need to secure an adequate return on the industry's massive capital to finance this very big investment programme which is required.

INTERVIEWER: When they're privatised surely that's what the markets are for, you go to market to get the money to persuade people to invest in you for the future?

CHANCELLOR: They're not privatised at the present time and therefore they have to finance their capital investment programme which is a very substantial one through the money that they earn. But it is also worth pointing out that what they do earn at the moment is a very, very small return on capital and it is one which I think that any open minded person would see does need to be increased.

chancellor
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DOMINIC HARROD/PETER RIDDELL - INTERVIEWS ON AUTUMN STATEMENT

Transcript from: BBC Radio 4, Today, 3 November 1987

INTERVIEWER: (PETER HOBDDAY) ... Dominic can I come to you first, what do you think the Chancellor will be saying this afternoon that he might not have been saying 2 weeks ago before what everybody calls the share melt down?

HARROD: I think what he'll be saying is that it was all unnecessary because the British economy is, as he will say and as he's been saying throughout the whole period, moving faster, has no inflationary tendency and is doing better than all the others. And he may raise his eyebrows about why it should be that in the City the mark down of share prices has been larger in London than in New York or than in Japan where, as everybody agrees, the Japanese share prices are much higher as a proportion of the earnings on those companies than in London or New York, and yet it is London that has lost its nerve in the biggest way. And so I think he'll probably allude to that and I don't think the substance of the statement need be changed very much except in one particular.

INTERVIEWER: Which is?

HARROD: He may have to slightly modify his forecast for the growth of the economy. Because not only does this statement lay out the public expenditure plans for the next 3 years but it also is obliged by law to contain a forecast that what the Treasury thinks is going to happen to the British economy. And the pundits all seem to think that that'll have to be shaved a bit from, say, 3 1/2% next year to 2 1/2 to 2 3/4% because of the effects on wealth and on expenditure and on spending of the lowering of share prices. And I think that he may have to do but I shall be very - that's what I'll be waiting for because that's the one place where I can see an effect of the shake out not only in our stock market but also in New York and Tokyo

of what his forecast would otherwise be.

INTERVIEWER: What's his political job this afternoon Peter Riddell?

RIDDELL: His political job is to show that the Government's economic policy is still very much on line. That in a sense they're having jumped very successfully the BP hurdle last week and that was so to speak a necessary condition not a sufficient one. Now he's got to show that the broad programme both of economic growth and privatisation are on target unruffled. He'll be able to show that on privatisation because a lot of proceeds are coming through. But there will be, as Dominic says, some question marks over world trade, over economic growth, over what happens more generally. But in general what he will want to do is offer a re-assuring message, we're on course not to be affected by what's happening externally.

INTERVIEWER: What about some of the numbers we're likely to hear this afternoon Dominic say on public spending or tax cuts or any of the things which hopefully will make music to our ears?

HARROD: Well this statement this afternoon a culmination of a process which ended in the Cabinet I think last week when they accepted his numbers for public expenditure. And the public spending figures will probably show a slight increase over what was in the last Budget for next year. And this is because there may be a higher revenue coming in and buoyant revenue, the fact that growth in this year that we're experiencing at the moment is faster than was expected means that revenue will probably be higher therefore he may feel that his public borrowing is dwindling so rapidly that he can afford actually to allow a little bit more public expenditure. And particularly since the Prime Minister immediately after the election pin pointed particular points where she wanted more money spent, education, inner cities and so on, and so there might be a little shading. But let's remember that the public expenditure plans for this year and next have

already been increased by £10 billion over what was contemplated only a year ago. So it's part of the process, a little bit more money here and there. But the one thing the City will be watching for, the one thing the brokers will be after, is that the public borrowing does not go up. And as it's likely to come in very low this year the economy is setting him a very stiff target to keep public borrowing well below 1% of GDP.

INTERVIEWER: It all sounds so good Peter Riddell, how come we're seeing these very strong rumours that something like electricity prices are going to go up by figures of upwards of 10 or even 15%?

RIDDELL: You've got to remember that it's a curious exercise this. He's trying to offer a measure of reassurance and of restraint on public spending and borrowing and at the same time saying everything is okay. So it's a mixture of the two. And indeed Labour will argue that some of the public spending figures aren't as much of an increase as may try and present them as being. In fact perhaps in real terms from this year to next year the figures are flat and that of course implies restraint in a number of areas. Now the point about electricity prices is partly the fact that they were held down last year which, surprise, surprise, was election year in financial terms. And so in some respects it's a catching up because they've altered the rates of return on electricity. Also to some extent it's allowing an amount of an investment in electricity ahead of privatisation in 2 or 3 years time.

INTERVIEWER: It's said of course the autumn statement tells us what's in next year's Budget. If you had to pick one area where you would forecast what would be in next year's Budget after you've heard the Chancellor this afternoon - if you follow this complicated question Dominic - what would it be?

HARROD: Oh it would be a further cut in income tax, probably

tuppence off the rate. Now I don't think he's going to say that this afternoon but I think he may show with the arithmetic that he's going to produce that there is room for cutting taxes unless things go badly adrift. After all we mustn't talk about the slide in share prices as though it was necessarily a thing of the past. It could happen again. It happened in August. It happened again during the last fortnight. It could happen again between now and 1 January, or rather April. What the Chancellor has said is that if he intends to cut taxes in April we shall know in April not before. But the former chairman of the Conservative Party, Mr Tebbet, who has been a silent participant in this discussion for some of our talk passed me a note suggesting that perhaps I should point out, and indeed he was quite right I did omit it, the point that because the economy has been growing faster than trend this year it may in any case slow down. And the Chancellor has indeed said that. He said that in Washington at the IMF, that he now thinks the British economy will grow slower next year anyway. So that is the one question mark over the otherwise Rosy picture and it may be slower still if the American deficit is tackled this week, does begin to slow down, our exports may suffer a little bit.

INTERVIEWER: And briefly Peter Riddell, I don't know whether you've got a note from Mr Tebbet?

RIDDELL: No,

INTERVIEWER: But what about Mr Lawson's own political standing after the past fortnight and this afternoon?

RIDDELL: Very strong indeed. I mean the Tory MPs were cooing over him on Thursday night for his ingenious safety net scheme for BP. He's in a terribly strong position as probably one of the most powerfully placed Chancellors since the war. Even the Sun has endorsed him as a potential Prime Minister. So he's riding high. But in a sense what

he's got to show is he can build on that, he can take it forward and that he's aware of concerns and worries of Tory Back Benchers. No I don't think he's got any political worries at all.

INTERVIEWER: The coo factor will increase?

RIDDELL: I think we'll have a lot of cooing at about quarter to four this afternoon yes.



FROM: A A DIGHT
DATE: 4 November 1987

MR D SAVAGE

AUTUMN STATEMENT: GROWTH FORECAST

The Chancellor has seen and was grateful for your minute of 3 November.

A handwritten signature in black ink, appearing to read "A A Dight".

A A DIGHT

P1. minute.



AMH

C.

You asked for defensive briefing ~~on~~ in case asked about Canada's growth rate. I attach a note on the figures from IF2, and a line to take, which I drafted & discussed with MOM. The basic answer is we ~~do~~ think the UK will grow faster than the IMF think.

AMH

3.11.

FROM: D SAVAGE
DATE: 3 November 1987

MR HUDSON 13/2

cc: Mr Evans
Mr Sedgwick
Mr Matthews
Miss O'Mara
Mr Allen
Mr Tyrrie

AUTUMN STATEMENT: GROWTH FORECAST

Data for the year so far

The latest data are for 1987Q2. Over the year to that quarter, real GDP increased by 3.8 per cent in the UK (on the average estimate) and by 3.2 per cent in Canada (on its expenditure estimate).

2. However during the first half of this year (from 1986Q4 to 1987Q2) Canada has grown more rapidly than the UK (by 6 per cent, at an annual rate, against 3½ per cent).

Forecasts for year as a whole

3. The last OECD forecast (published in June) for 1987 as a whole showed growth of 3¼ per cent for the UK and only 2½ per cent for Canada. The more recent IMF forecast (published in October) showed a marginally higher growth rate for Canada (3.5 per cent against 3.4 per cent for the UK).

4. The Autumn Statement forecast for the UK is 4 per cent. This is higher than the IMF forecasts for any of the other major seven countries.

Conclusion

5. We should probably avoid the statement that the UK is currently the fastest growing. We can claim that, among the major seven, the UK is likely to have the fastest growth rate this year.

David Savage

D SAVAGE

UK not fastest growing - what about Canada?

[NB Canada grew very rapidly in 1987 H1; and IMF October forecast predicted 3.5 per cent for Canada and 3.4 per cent for UK.]

Treasury forecast, taking account of all recent information, predicts 4 per cent for UK - well ahead of IMF forecast for Canada. IMF forecast for UK based only on data to 1987 Q2.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

4 November 1987

Official Report
House of Commons
London SW1

Dear Sir,

There are a couple of points in the "Hansard" report of the Autumn Statement of 3 November which I should be grateful if you would correct in the bound volume:

- (i) Column 786, line 30: delete the comma after "Despite".
- (ii) Column 796 line 21: insert "and in" after "Northern Ireland economy".

... I attached marked copies of the relevant papers.

Yours faithfully,
Cathy Ryding

CATHY RYDING
Assistant Private Secretary

than was previously envisaged. It also takes account of the upping of benefits announced by my right hon. Friend the Secretary of State for Social Services last week, including the cost of compensating income support claimants for their average contribution to rates.

Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.

The additions to planned capital expenditure, for the public sector as a whole, amount to some £1 billion in each of the next two years. About half of this is for the nationalised industries, principally for the large-scale investment programmes of the electricity and water industries.

Further information about these and other changes is contained in the printed Autumn Statement which will be available from the Vote Office as soon as I have sat down. Full details, together with information on running costs and manpower, will be given in the public expenditure White Paper early in the new year.

I turn now to national insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the national insurance fund, and taking account of the statement on benefits which my right hon. Friend the Secretary of State for Social Services made on 27 October.

The lower earnings limit will be increased next April to £41 a week, in line with the single person's pension, and the upper earnings limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent. and 7 per cent. bands will be raised to £70 a week and £105 a week respectively. The upper limit for the 9 per cent. rate for employers will be raised to £155 a week.

The taxpayer's contribution to the national insurance fund — the so-called Treasury supplement — will be reduced from 7 per cent. to 5 per cent., but this will not require any change in contribution rates. Thus, the main class I contribution rates will once again remain unchanged at 9 per cent. for employees and 10-45 per cent. for employers.

Finally, I turn to the Industry Act forecast. Growth this year looks to be turning out at 4 per cent., compared with the 3 per cent. growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981, and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry is doing particularly well, with output rising by 5 per cent. This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago — the largest annual fall on record. Indeed, unemployment has been falling faster in the United Kingdom than in any other major country.

As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see no need to amend my budget forecast of a modest current account deficit of some £2½ billion, or about ½ per cent. of GDP. Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. As I have already indicated, the full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets in so far as it is possible to do so at this early stage.

This is clearly a time when economic forecasting is a more than usually hazardous business. But what is clear is that the strength of the British economy, and of our public finances, puts us in the best possible position to weather any storm. And that strength will also enable us to play a full part in the international co-operation which is more than ever needed today.

Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North sea oil output now declining, this implies 3 per cent. growth for the non-North sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. Business investment is likely to be particularly strong, rising by 5½ per cent.

With the United Kingdom continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¾ per cent. of GDP. Inflation may rise a little next year, reaching 4½ per cent. in the fourth quarter, by which time it should be on a downward trend again. The defeat of inflation remains at the heart of the Government's economic strategy. With continuing healthy growth in 1988, unemployment should continue to fall.

The progress and prospects I have described demonstrate once again the soundness of the policies we have followed over the past two parliaments. We will continue to pursue these policies in our third. Despite the recent deterioration in the world economic climate, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with inflation low and unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to.

Mr. John Smith (Monklands, East): This is the usual sort of confidence trick we expect from the Chancellor. In the first half of the public expenditure part of his statement he boasted about how he was reducing public expenditure, while in the second half he boasted about how he was increasing it. I ask the Chancellor to answer precisely whether this comes about because he has had to adjust his spending plans by the 1.5 per cent. increase in inflation, with the result that, although there are apparent increases in the programmes, there is no new money above the money that was originally planned to be spent. The difference in the apparent increases is accounted for entirely by the inflation factor. As we look through the plans for individual programme spending, does not that become clear?

There is a 5.7 per cent. increase in health and social services. Allowing for 4.5 per cent. inflation, that is a 1 per cent. increase in cash resources. The National Health Service needs much more money than that to cope with more old people and technical improvements, so the increase proposed is wholly insufficient even to maintain present services. Is the Chancellor aware of the anger that will be caused among those who work in our National Health Service, and who believe in it, even if the Chancellor and his Government do not?

Is the Chancellor aware that, with a 4.6 per cent. increase in the budget for education spending proposals, they are effectively frozen in real terms? There is a

[Mr. Richard Holt]

increasing production, increasing exports as a result of that production and increasing the number of people employed by 350. It is because of those policies in the north-east that the Conservative party is the only party that is growing in the north-east.

Mr. Lawson: My hon. Friend is right and the reinvigoration of the economy of the north-east is one of the most exciting developments in this country at the present time. Although I do not want to refight the election campaign that caused the Labour party so much distress, I must say to Labour right hon. and hon. Members that the plain fact is that if they continue to show themselves to be so out of touch with what is happening on the ground they will never get within a mile of winning a general election.

Ms. Hilary Armstrong (Durham, North-West): The Chancellor should know that his hon. Friend the Member for Langbaugh (Mr. Holt) has been misleading him and that the people of the north will view with great distress and great sorrow the statement that he has made today. May I also remind the Chancellor that the people of the north voted overwhelmingly for the Labour party? Perhaps he needs to read the statistics of the general election.

May I remind the Chancellor that the cuts in the regional development grants to the north-east are of the order of 78 per cent.? If the right hon. Gentleman is truly serious about offering proper hope of future development to areas such as the north-east, he should consider that every authority in the north is asking whether he will address those particular cuts and restore to regions such as the north-east the sort of support and structure that will enable those regions to invest properly in the manufacturing industries and to bring proper new hope to the north.

Mr. Lawson: It is a complete fallacy to assume that the amount of economic activity in any part of the country is solely or even mainly dependent on what is paid in regional development grants. What matters is the prospect for industry of profitable investment and also industry's confidence in the future. That confidence has been transformed under this Government. But since the hon. Lady mentioned regional assistance, let me quote the figure again. This Autumn Statement shows that, for 1988-89, we have increased our provision for regional assistance by £160 million.

Mr. Neil Hamilton (Tatton): Although it is not apparent, I hope that my right hon. Friend is feeling just a little bit smug this afternoon. Is he aware that he is basking in the envy of finance Ministers throughout the developed world for being able to make such a statement this afternoon? I especially welcome the virtual disappearance of the public sector borrowing requirement. However, will my right hon. Friend confirm that the debt interest that the Government must pay gobbles up about half of the revenue from income tax and that, therefore, it is vital that we continue to keep the lid on borrowing and reduce the amount of money that we must pay for debts incurred by previous Administrations?

Mr. Lawson: I think that I liked the rest of my hon. Friend's question rather more than his opening remark. I believe that my hon. Friend is right about debt interest.

One of the problems from which the United States is suffering at present is that, as a result of the policies that it has been pursuing since 1979, debt interest, as a proportion of GDP, has doubled whereas in this country it is declining. That decline, coupled with the real rate of growth of the economy, is one of the reasons why we are able to spend more money on priority programmes.

Mr. Seamus Mallon (Newry and Armagh): The Chancellor of the Exchequer laid great emphasis, and rightly so, on the increase in manufacturing industry in the past year. Will he pay regard to the fact that the North of Ireland is the only region where there has been a decrease in manufacturing industry and where, at present, there are more people unemployed than are employed in manufacturing industry? Will he impress upon his colleagues that, unless unique steps are taken to redress that imbalance, the problems of the North of Ireland in relation to the general economy and, in particular, manufacturing industry will increase?

Mr. Lawson: I am conscious of the problems of the Northern Ireland economy so far as public expenditure plays any part, the hon. Gentleman will no doubt be aware that public expenditure in Northern Ireland is approaching £3,000 per head compared with £2,000 per head in England and about £2,500 per head in Scotland. I am well aware that there are acute problems as a result of the political difficulties and troubles in Northern Ireland and the fact that Northern Ireland perhaps has more than its fair share of older industries. Clearly the future must lie in the development of newer industries, and my right hon. Friend the Secretary of State for Northern Ireland is keenly aware of that.

Mr. Nicholas Winterton (Macclesfield): While I commend my right hon. Friend and the Government for the extremely prudent way in which they have dealt with our economic affairs, which heralds well for the future, might I ask him to give to the House as part of his announcement further details about what additional resources will be allocated to roads because they are running into the ground? Secondly, will he consider future additional resources for the hospital service? Bearing in mind its outstanding success in treating more patients and in the advance of medical science, that service will need more than he has announced in the allocations this afternoon.

Mr. Lawson: The amount of extra spending on transport in 1988 will be £60 million of which a significant proportion will be on bridge maintenance, one of the most important areas of the road programme which needs attention. The increase of £700 million for the National Health Service is the biggest increase ever announced for that service.

Mr. James Lamond (Oldham, Central and Royton): If everything has been going so well for the last few years as the Chancellor would have us believe, and since he has managed to claw back more in taxation this year than he thought he would and spent less proportionately on public services, so reducing the public sector borrowing requirement to one quarter of 1 per cent., why was it necessary just a month or so ago, before the crash on the stock exchange, all of a sudden to increase bank rate by 1 per cent. which was a savage blow to manufacturing industry?

Chancellor
12/2 ✓ 12

CHANCELLOR - INTERVIEW ON AUTUMN STATEMENT

Transcript from: BBC Radio 4, Today, 4 November 1987

INTERVIEWER: (SUE MACGREGOR) Chancellor good morning, your supporters were obviously delighted with what they called your hat trick of achievement last night. But the Opposition called it a wasted opportunity. They said it was an unfortunate hat trick of higher inflation, lower growth and a rising balance of trade deficits forecast. How do you react to that criticism?

CHANCELLOR: Well I'm sorry that they should be so sour when everybody throughout the world knows that the British economy is doing extremely well. We have the fastest rate of economic growth of all the major nations in the world this year. And next year we may not be absolutely right at the top I don't know but we'll certainly be well above average. We have unemployment coming down fast, faster than any other country. We have inflation staying low and the public finances sound and sterling strong. This is something which is a different world from the world that we knew when there was a Labour Government in office. Obviously we are going through a difficult time now but the world's going through a difficult time. But we're in much better shape to face that than other countries.

INTERVIEWER: But as you are aware Chancellor growth will be falling in real terms next year from 4% to 2.5%, inflation may go up to 4 1/2% and imports are going to rise considerably by 5%?

CHANCELLOR: Well that's the best forecast I can make at the present time but it doesn't one whit alter the facts that I gave you a moment ago, that the British economy is performing better than pretty well every other economy in the world today. We know where the difficulties are in the world today, they're not with Britain.

INTERVIEWER: But nationally inflation is going to be fuelled by a nationalised industry that's going up, the Energy Secretary said that

electricity prices may well go up next year by over 8%. That's going to affect manufacturing industry isn't it?

CHANCELLOR: It is an *element* in industry's costs, it's only a small element. It is necessary for the electricity industry to earn a proper return on the vast amount of capital it employs and a vast amount of investment that it already has in order to pay for the new investment it needs, the new transmission lines and the new power stations. And of course as far as the domestic consumer is concerned we *have* the lowest electricity prices of anybody in Europe at the present time.

INTERVIEWER: It is felt Chancellor, that the amount that you do have in the coffers at the moment you could have afforded to have been a bit more generous with your announcements for public spending?

CHANCELLOR: People will always be inclined to say that. But you know we have got the very strong economy we have to a large extent because we have kept firm control of Government spending. As it is I announced a number of very substantial increases in Government spending for the health service and various other priority programmes.

INTERVIEWER: Does that mean, are you now a convert to higher public spending?

CHANCELLOR: No, no, the policy is quite clear. It was set out very clearly in our manifesto. And the policy was this: that we think it is right now to let public expenditure expand but not as fast as the economy as a whole so that the State is taking a progressively smaller share of the national income. And that is what is secured by the plans which I published yesterday.

INTERVIEWER: You said *yourself* that forecasting is an unusually hazardous business especially at this time, because you were obviously referring to the high US budget deficit, could you be tempted into telling us what tax cuts you might have in mind for 1988 and will you

be announcing some at the Mansion House tonight?

CHANCELLOR: The difficulty that I was referring to of course were the difficulties which have been caused I agree they're very much connected with the American budget deficit. But they're the difficulties which we've seen throughout the world, starting with Wall St, with stock markets falling very fast and trying to make an assessment of what effect that is likely to have on the world economy and of course Britain is inevitably affected by trends in the world economy. As for the next Budget, well you'll have to wait and see. I'm certainly not going to say anything at the Mansion House tonight and I don't intend to say anything until I stand up on Budget day.

INTERVIEWER: You're not going to say anything about whether or not you feel you have enough leeway for tax cuts next year?

CHANCELLOR: No, our policy is very clear. It is to cut taxes, particularly income tax, and get the basic rate of income tax down to 25 pence in the £ as soon as it is prudent to do so, and that is what I shall do. Whether that will be in next year's Budget or not it's far too early to say.

INTERVIEWER: What about a drop in interest rates Chancellor, that would be music to the ears of your audience tonight?

CHANCELLOR: I cut interest rates last week and I will obviously watch the situation very carefully and whenever it is right to reduce interest rates I will do so. But I think that it is unwise to be impatient. I'm watching the situation very very carefully. I'm in close contact with my opposite numbers in the major nations overseas and I will move when I believe it's right to do so.

Chancellor 12/2

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CHIEF SECRETARY - INTERVIEW ON AUTUMN STATEMENT

Transcript from: BBC 1 TV, Breakfast Time, 4 November 1987

INTERVIEWER: (FRANK BOUGH) Well joining me now is the Chief Secretary to the Treasury, John Major, a very good morning to you. Well nobody's harping very much this morning, The package is described as credible and respectable. But - why are we suddenly faced with these, the prospect of increases in electricity prices, water prices, railways, all those are nationalised interests or industries?

CHIEF SEC: Well it's rather curious isn't it. We're so frequently asked to increase investment and yet investment has to be paid for. And in the case of the electricity industry for example there's the need for a £40 billion investment programme over the next few years, now clearly that has to be paid for.

INTERVIEWER: It sounds like you've been neglecting somewhat over the last 8 though doesn't it that you're having to spend so much money to update it?

CHIEF SEC: No I don't think it has been neglected over the past 8 because there's an accelerating demand for electricity and we need ever more modern power stations. And it's substantially the power station investment programme that requires electricity price increase.

INTERVIEWER: And what about water and the rest?

CHIEF SEC: Well I would be very surprised Frank if you and many other people haven't complained from time to time about the need for improvements to sewers and matters of that sort. Now that sort of investment also requires a greater return by the industry.

INTERVIEWER: What about though the Government's commitment to inflation? I mean it seems to be accepted now that this and other matters will put the inflation rate up to 5%, so in other words that's going the wrong way next year. Why is that?

CHIEF SEC: No I don't accept the 5% figure at all. We think around about the fourth quarter of next year it may very briefly touch 4 1/2% and then ^ybegin to fall again. But the counter inflation policy is still the heart of our policy.

INTERVIEWER: The CBI, who've been meeting this week, they describe the whole thing as a tax on jobs. ^yI mean they don't like all these price rises on the stuff they consume like water, electricity and power and so on, attacks on jobs, bad for employment, at a time when they're doing pretty well?

CHIEF SEC: They are doing rather well. There's been a substantial drop in unemployment and we expect that drop in unemployment to continue though perhaps not at quite the rate of the last year. I don't think what the CBI have said is really fair. There is a substantial need for extra investment and that has to be paid for and the CBI will have to recognise that.

INTERVIEWER: Now when it comes to all this money you're spending, and it does sound terribly impressive when we list all those things that you're spending extra money on, but the Opposition says you don't need to spend £3 billion you need £7 billion to really put some of the things right. They say in schools for example the money ^yyou're spending there will never begin to tackle the problem at all such is the ^ydecay in our schools?

CHIEF SEC: Yes well that's what they would say wouldn't they.

INTERVIEWER: But is there some truth in that?

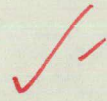
CHIEF SEC: No no I think ^ythere's no truth in that at all. If we were to follow the policies the Opposition have in mind all we would do is turn the growth we now have into inflation. That's precisely what we don't want. It's precisely the cycle we had in the 1960s, it's precisely what caused so man of the troubles in the 1970s and we're simply not going back to that.

INTERVIEWER: The other criticism is that the £700 million you're spending on the national health service won't even keep up with inflation?

CHIEF SEC: Well that's simply not true. It's in fact a 2.1% real terms increase for the national health service. It's clearly a priority ...

INTERVIEWER: What, on top of the 4.5% inflation?

CHIEF SEC: It's a 2.1 real terms increase for the national health service and it will enable improvements in the waiting lists initiative, improvements in breast screening, improvements in special care for aids patients and a large number of improvemets as well. It's a very substantial increase.



CHANCELLOR - INTERVIEW ON AUTUMN STATEMENT

Transcript from: BBC Radio 2, Jimmy Young Prog, 4 November

1987 YOUNG: ... Well we already heard, as I was saying the big increases in electricity prices - we were talking about it yesterday morning here and it's now reported that your officials are saying that it's possible there will be increases also in water, railway, the post and other transport prices. Is this the case, as one newspaper in its leading article today says, giving with the one hand and taking back with the other?

CHANCELLOR: No it's not. These price increases, and the major one is the electricity price increase to which you have already referred, these increases are needed on commercial grounds. The plain fact of the matter is that as a result of the growth of the economy on the one hand and some of the old power stations, particularly the old nuclear power stations, now coming to the end of their useful lives there is a major investment programme in new power stations, in new transmission lines which the electricity has to go in for and that has to be financed. And that means there has to be some increase in prices which is I agree a sharp increase. But you have to recall that we do have the lowest electricity prices for the ordinary consumer of any country in Europe at the present time.

YOUNG: Well now yesterday morning I was talking to John Hatch, who is chairman of the National Electricity Council, and he said that the electricity industry last year made very nearly £2 billion. Of which, he went on to say, the Government immediately took back £1.3 billion in repayments of loans. I think what was worrying him was why did you have to have the loans repaid so quickly, why couldn't some of that money at any rate been used for investment?

CHANCELLOR: The loans fall due to be repaid and they're repaid. But when you talk about the profitability I think you have to realise

so on and so on?

CHANCELLOR: We're spending more and more money, and not more and more money in cash terms, but also more and more money over and above the rate of inflation. On the health service particularly we're spending now something like 31% more in real terms over and above inflation than what was being spent in 1978/9 when we came into office. And the hospital building programme has been increased dramatically and I think most people know this because there are very few areas now that haven't got a new hospital in their area. So what we've got to do is not just to be satisfied with that, but what we've got to do is to make sure we get better value for money. And we are trying to do this. We're putting new management into the national health service to get better value for money for the patient and for the user. And in the same we have the Audit Commission for local government who has pointed out enormous areas of waste and bad management in local government and suggested how massive sums could be saved simply by good business practices which could then be put to providing a better service for the ratepayer and taxpayer.

CHANCELLOR: I mean obviously efficiency is greatly to be desired, I don't think anybody could criticise you for wanting that. Well what about - and also okay you're spending more money - but don't your critics say yes you are spending more money but the trouble is you just aren't spending enough money?

CHANCELLOR: I'm spending, we're spending, total Government spending as much as I think it is prudent to spend bearing in mind the overriding need to have a successful economy. If you put too big a burden of public expenditure, too big a burden of State spending, which means higher taxes to pay for it or else higher borrowing or else higher interest charges, either way then you find that the economy simply doesn't perform well and the wealth isn't created. And

that this is an absolutely massive industry and the return on capital, which apparently big profit is, the return its getting is something like around 2% or so which is not really a proper return and nobody would think that a commercial return.

YOUNG: It's very interesting you say that because obviously there's a great conflict here somewhere because John Hatch also said in the last financial year the electricity industry made a return on assets of 14%. Now that seems a way out of line?

CHANCELLOR: Yes, it depends on whether you have what is called, I'm sorry to use jargon, current cost accounting, that is to say you adjust for the inflation, or whether you just do it on what is known as historic cost. If you - because power stations last what, an average of 30 years, if you actually only work out the return on the basis of what those power stations originally cost to build then you do get a figure like 14%. But of course that's totally unrealistic because when you come to have to replace those power stations, and they do come to the end of their lives, then of course you have to pay today's costs. And so we find it, and I think most accounts do, more accurate if you take the return on the basis of the current costs.

CHANCELLOR: So what you're saying is that John Hatch is actually right in his figure but it's just which way you view the books in other words?

CHANCELLOR: It's a misleading figure, yes, it's a misleading figure although it's calculated on this historic base.

CHANCELLOR: Okay, now another thing that you said is that public borrowing is the lowest it's been for 17 years. To which many of your critics are saying absolutely right it is and that is why State schools are in such a bad state of repair, one in 5 needs substantial building work carried out, more and more parents are having to spend money on school books, waiting lists in hospitals are long as ever and

so we've got to create that wealth before we can spend it. And that is why we're pursuing the policies that we are pursuing, allowing public expenditure to rise each year, each year an increase, but not as fast as the overall economy is rising. And this policy has been very successful. We have the fastest growing economy of all the major nations in the world.

YOUNG: Do you take on board at all the criticism that by clawing money back if you like, I mean the electricity industry comes to mind because that's one which is current, this is in fact back door indirect taxation?

CHANCELLOR: No I don't accept that at all. As I said, it was entirely a commercial decision. But the simplest way of demonstrating that it's not taxation is to privatise the industry and then the Government doesn't get any of that money.

YOUNG: Is it a fact that with the global economy, you will have seen what's happening on the stock market this morning, obviously I certainly don't have to tell you, and you were in a very bullish mood yesterday about our economy - but in the sort of global economy in which we now live I mean isn't there a limit to what you can do on your own unless you can persuade President Reagan perhaps to abandon his dream of retiring as a non tax cutting President, America's going to go into a recession and take us along with them?

CHANCELLOR: Well there is a lot of truth in that Jimmy and however strong we get our economy, and obviously it's my job to make sure that it is strong and that it is and indeed that it remains strong, we are affected by what happens in the rest of the world inevitably and particularly in the United States. And that's why I am concentrating a lot of my efforts not merely on the British economy but also in trying to get international co-operation for a package of measures of which the United States is the key which will restore confidence and

in particular cure the problems which the American economy has. But I will say this, although the American economy influences us considerably we are not totally dependent on it, not any more. And although therefore it might it might mean that our rate of growth, our rate of expansion and our rate of improvement in living standards is not as fast as they get into big trouble, and I very much hope they won't, it won't pull us down with them.

YOUNG: Well you see there's a big page, well in fact I showed it to you just before we went on the air, in the FT this morning saying that the German economy is also in trouble. So I think that this American, the way they're conducting their financial affairs at the moment seems to be affecting just about everybody and aren't you a bit frightened that you just can't stand out on your own against all that?

CHANCELLOR: Well the Germans have, they've got a strong economy but they do have different problems. And I think that they are getting a little bit rigid and inflexible in the way the economy works which is of course very dangerous. But they're still a very strong economy. The Japanese economy is performing extremely well and that's the second biggest economy in the world and I think anybody who competes with the Japanese knows just how effective and efficient they are. So I think it would be wrong to imagine that whole world economy is grinding to a halt. Far from it. As I say, we are in a particularly strong position. And of course the Americans although they have problems to solve they're problems which can readily be solved. They're not conundrums to which no one knows the answer. The answer is very clear.

YOUNG: Well you probably know the answer but will they listen to you?

CHANCELLOR: Well they are having discussions between the administration and the Congress at this very moment. And I am sure that they will come up with something. I don't quite yet know the size

of it.

YOUNG: Do you think that the sheer blind panic in the world's stock market over the last couple of weeks, and it certainly has been that, has so frightened the new breed of small investors that the Prime Minister's dream of a wider share owning popular capitalist society has gone?

CHANCELLOR: No I don't believe that that's so. All the signs are the reverse. All the signs are that when the BP price dropped to well below the price that was offered by the Government originally small investors flocked to buy it at what they considered to be bargain prices.

So I mean in so far from having their interest totally doused it aroused their interest. So I'm quite sure the appetite for share ownership will continue and will continue to grow. I think that the stock exchange, what is happening on the stock exchange is really very difficult to explain at the present time. I was interested to see the Guardian today because it was a long article by their financial editor, and the Guardian is not a newspaper which normally supports the Conservative Party, and they concluded their analysis in these terms, "We," that's Britain, "we are in a very strong position. Someday our markets will start to realise this and get away from the obsession with Wall St."

YOUNG: Well I was going to, perhaps I can ask you finally, because I was going to ask you even before you read the piece in the Guardian: I mean you're addressing City people tonight and you're an ex City person yourself, are you going to bang a few City heads together and try to make them understand that perhaps their view of the economy you know is not as sound as your view of the economy I wonder?

CHANCELLOR: No, I think their view, I think they accept the economy is sound, but I think that what is happening is that they, many of

them, feel that if Wall St is going to fall then there is no way we can stand out against that, that the London market is bound to fall again.

YOUNG: But this is precisely the point I was making to you ...?

CHANCELLOR: That's right

YOUNG: And they are ignoring that?

CHANCELLOR: Yes that's right. I think it will come to an end of course. And we have to get this in perspective Jimmy. I mean the share prices today although they have fallen very sharply and it's very uncomfortable for many people and I'm particular concerned about the new shareholders who've come in, but share prices although they've fallen sharply they are roughly now back to where they were a year ago. And if you think back to a year ago we didn't feel we were doing too badly.

YOUNG: Chancellor it's always a great pleasure talking to you on the programme

Business of the House

3.31 pm

Mr. Neil Kinnock (Islwyn): Will the Leader of the House state the business for next week?

The Lord Privy Seal and Leader of the House of Commons (Mr. John Wakeham): The business for next week will be as follows:

MONDAY 9 NOVEMBER — Second Reading of the Licensing Bill.

Motion to take note of EC document relating to the EC free food scheme. Details will be given in the *Official Report*.

TUESDAY 10 NOVEMBER—Debate on a motion relating to the 2nd report of the House of Commons (Services) Committee in Session 1984-85 (HC 195).

The Chairman of Ways and Means has named opposed private business for consideration at 7 o'clock.

WEDNESDAY 11 NOVEMBER — Opposition Day (3rd Allotted Day). There will be a debate on an opposition motion entitled "The Failure of the Government to Provide Adequately for the Transport Needs of the Nation."

Debate on a motion on the Supplementary Estimate on the purchase and sale of shares in BP.

THURSDAY 12 NOVEMBER — Proceedings on the Consolidated Fund Bill.

Motions on Social Security orders and regulations. Details will be given in the *Official Report*.

FRIDAY 13 NOVEMBER—Private Members' motions.

MONDAY 16 NOVEMBER — Second Reading of the Immigration Bill.

[Debate on Monday 9 November

Relevant European document:

9138/87 *Intervention Food for Poor*

Relevant report of European Legislation Committee

HC 43-iv (1987-88) para 6.

Thursday 12 November:

Draft Income Support (General) Regulations 1987.

Draft Social Security (Claims and Payments) Regulations 1987.

Draft Social Security Benefits Up-rating (No. 2) Order 1987.]

Mr. Kinnock: Will the Conservative party, in common with the Labour party, have a free vote on Monday's Second Reading of the Licensing Bill? If not, perhaps he would like to tell us precisely why.

When will we have the opportunity to debate the Government's Autumn Statement? As it is becoming clearer that the public spending increases are, in many cases, fictitious and that the Government are dictating unnecessary and unjustified increases in electricity prices, water charges and rail fares, the sooner we get the chance to consider fully the statement the better.

Will the Leader of the House ensure that the Secretary of State for Trade and Industry makes a statement to the House when he has made his decision about the possible merger between British Airways and British Caledonian?

It is now becoming clear that the Government are trying to make a profit out of the scheme that was alleged to give aid to those areas of the country that were hit by the effects of the hurricane last month. As my hon. Friend the Member for Copeland (Dr. Cunningham) pointed out yesterday during questions on the environment,

Conservative and Labour councils will face bills for damage that are far greater than the amount that the Department of the Environment is prepared to give them. The necessary expenditure that they incur to make proper repairs means that they will be penalised and lose Government grant money. Will the right hon. Gentleman arrange for a debate on the parsimony and duplicity of a Government who are trying to foster the impression that they will provide 75 per cent. of the funds needed to help to meet the storm damage repair bills?

The Government survey of school buildings was published this week, after being suppressed since before the election. It showed that a large proportion of our schools are in a derelict and dangerous condition. As the £60 million for school repairs allocated in the Autumn Statement is grossly inadequate to meet the £2 billion estimated repair bills, will the Leader of the House arrange for a statement by his right hon. Friend the Secretary of State for Education and Science on how he will ensure that the necessary repairs are carried out with the necessary speed?

As it is clear that the deputy leader of the Conservative party, Lord Whitelaw, believes that the Education Bill will be beaten in the House of Lords, will the Leader of the House now advise his right hon. Friends in the Cabinet to drop the Bill and save themselves from defeat, and, more importantly, save schoolchildren from the division and disruption that the Government's proposals would cause?

Mr. Wakeham: The right hon. Gentleman asked me a number of questions, and I shall seek to answer them in the order in which they were asked.

The right hon. Gentleman asked me about the Licensing Bill. He knows perfectly well that the days when I had responsibility for the whipping of the party have, mercifully, passed away. He knows, too, that these are not matters that we discuss on the Floor of the House, and I remind him, in case he has forgotten, that we covered the matter in our election manifesto and won the election by rather a large amount.

Mr. Kinnock: Just like the Shops Bill.

Mr. Wakeham: We shall do better this time than we did on the Shops Bill.

There will be a debate on the Autumn Statement, but I cannot promise to announce its date yet because a number of things must be dealt with before that. I wonder whether the right hon. Gentleman would be well advised to give his right hon. and learned Friend the Member for Monklands, East (Mr. Smith) a bit of a rest—he has had a bit of a clobbering in recent days.

The right hon. Gentleman asked me about the Monopolies and Mergers Commission report on British Airways. It is being considered by my right hon. Friend, and an announcement will be made in the normal and appropriate way.

With regard to the right hon. Gentleman's remarks about storm damage, the arrangements that my right hon. Friend the Secretary of State brought before the House were basically the same system, in financial terms, that had been used under the Labour Government, put forward in a much clearer and fairer way to local authorities. However, I shall refer the right hon. Gentleman's point to my right hon. Friend.

Mr A C S Allan

cc Mr Fray

Are you happy with this? - (discussed
with Mr Fray)

FROM: MISS C EVANS
DATE: 5 NOVEMBER 1987

DRAFT

Cony's En
5.11

1. MR SCHOLAR
2. MR BUTLER

cc Mr A C S Allan
Mr Fray

AUTUMN STATEMENT TIMETABLE: ORAL STATEMENT

You asked at Second Secretaries about the timetable for finalising the oral statement on Autumn Statement morning. The constraint is that the Chancellor's Office need to have the statement copied and inserted into over 160 packages with the other documentation (printed document, Press Notices etc) for circulation, starting with No 10 by midday. To achieve this all components of the package, including the oral statement, need to be finalised by 10am. Any later than this means that the distribution timetable slips.

2. In our routine Autumn Statement post mortem we are suggesting that this deadline should be promulgated so that it is clear that any amendments to the statement need to be agreed with the Chancellor by 9.30am (to allow time for retyping etc) so that copying can start at 10am.

MISS C EVANS

CONFIDENTIAL

pwf

FROM: MS P A BOYS
DATE: 5 NOVEMBER 1987

PS/CHIEF SECRETARY

cc Chancellor — 12/2
Financial Secretary
Mr F E R Butler
Mr ANSON
Miss Peirson
Mr Turnbull
Mr R I G Allen
Mr Sturges

AUTUMN STATEMENT: REAL TERMS GROWTH IN EXPENDITURE ON HEALTH

I have agreed the following line with DHSS:

" The real growth between 1987-88 and 1988-89 for net central government expenditure on health is 1.7%, but when account is taken of other adjustments such as capital receipts, the figure will be over 2%. And if account is also taken of the cost improvement programme and income generation schemes, the resources available to health authorities will represent real growth of just over 3%."

Paul A Boys
P A BOYS

CONFIDENTIAL

CHANCELLOR

FROM: MS P A BOYS
DATE: 4 NOVEMBER 1987cc Chief Secretary
Financial Secretary
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Turnbull
Mr R I G Allen
Mr Sturges

AUTUMN STATEMENT: REAL TERMS GROWTH IN HEALTH PROGRAMME

The brief we provided (FF16 in briefing pack) included amongst defensive points a reference to real growth of 2.1% between 1987-88 and 1988-89 for the Health service. This figure refers to the underlying plans for expenditure by central government on health. It makes no allowance for the proceeds expected from the sale of the General Practice Finance Corporation (GPFC). In fact, the planning total assumes that £80 million will be received in 1988-89 from this source. An announcement of the sale of GPFC will be made in the White Paper on Primary Health Care, to be published on 19 November. But even then, we shall need to take care that we do not damage negotiations for the sale of GPFC by revealing assumptions about the estimated proceeds of sale.

Rather than focussing on the real growth implied for central government spending on Health, I suggest that you switch attention to the overall real increase in resources for health authorities (3%, including cash released from cost improvement programmes, and from income generation schemes, as well as from the increase of £479 million in net provision for the Hospital and Community Health Services current programme). This was the figure given in DHSS's own press release, and it is the HCHS Current figure on which public attention normally focusses.

P A Boys
P A BOYS

*When did you give this for?
Say the words for 15?
P A Boys @ X?*

The figure you used in HoC.

CONFIDENTIAL

FROM: A TURNBULL
DATE: 4 NOVEMBER 1987

MR F E R BUTLER

cc Mr Gieve
Ms Boys
Mr R I G Allen
Miss O'Mara
Mr Sturges
Mr Tyrie

REAL TERMS GROWTH FOR HEALTH

There are a number of different bases on which real terms growth rates for 1988-89 can be calculated. All figures are for England and compare 1988-89 plans with 1987-88 outturn.

i. HPSS - central plus local government

Cash 5.7 per cent

Real 1.1 per cent

Derived from Table 2.3 of Autumn Statement. Used by Mr Smith in House.

ii. HCHS current

Cash 6.3 per cent

Real 1.7 per cent

Used by DHSS in their Press Notice. They also draw attention to cost improvements and income generation - which would take the increase to "just over 3 per cent".

iii. Central government spending on health (approximate to coverage of NHS)

Cash 6.2 per cent

Real 1.7 per cent

Derived from Table 2.5 of Autumn Statement.

iv. As given in Brief FF16 and quoted by Chancellor and yourself

Cash 6.7 per cent

Real 2.1 per cent

General Practice Finance Corporation

This is derived by taking method (iii) and adding back £80 million in 1988-89 for sale of GPFC. (ST did the calculation from unrounded numbers but the result is the same).

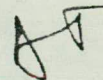
3. The good news is that we will be able to justify the figure, the bad news is that we are in difficulty in doing so immediately as the intention to sell GPFC will not be announced until the Primary Health Care White Paper on 19 November. There is further difficulty in that we do not want to release the figure while negotiations with potential purchasers are going on. This will mean hiding the figure away until negotiations start, probably next Autumn.

4. I have agreed with Ms Boys that we should switch the basis used by the DHSS. She will:

i. warn the Chancellor of difficulties over 2 per cent figure and advise him to switch to DHSS figure;

ii. warn departments that we have used 2 per cent.

5. Since the 2.1 per cent is not incorrect, I do not think it is necessary to provide a correction. If we are taken up on the issue after 19 November we will be able to refer to GPFC but try to lose the exact figure in the roundings. If we are taken up before 19 November, we will need to think very rapidly. One possibility might be to advance the GPFC announcement; another might be to say that our figure took account of "asset sales" which the listener might construe as land and buildings.



A TURNBULL

CONFIDENTIAL



CC - CX, Mr Botter
 Mr Anson, Mr Tuenssen
 Ms Bors, Miss Pearson,
 Mr Frie, Mr Gau, Mr Cropper

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

5 November 1987

Dear David,

AUTUMN STATEMENT: HEALTH

As I explained to you last night there is a difficulty with the 2.1 per cent figure quoted by the Chancellor and the Chief Secretary for the real increase in the health programme. This figure takes account of the sale of the General Practice Finance Corporation, which will not be announced until 19 November.

... The following description of the increased resources for the NHS has been agreed with DHSS. The Division recommends that in talking about the outcome focus should be made insofar as possible on the 1.7 per cent increase in net central government expenditure on health or the increase of just over 3 per cent in the real resources available to health authorities, rather than the 2.1 per cent figure.

Yours,

Jin

JILL RUTTER
 Private Secretary

pwp

CG only table to come.

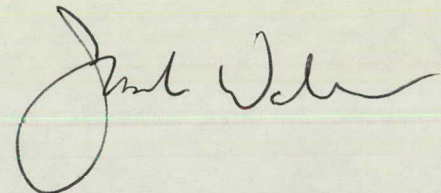
FROM: MISS S P B WALKER
DATE: 5 NOVEMBER 1987

PS/CHANCELLOR (Miss Wallace)

cc Mr Gieve

AUTUMN STATEMENT: REAL TERMS FIGURES

I attach a table showing real terms changes for all the departmental programmes listed in the Autumn Statement, as requested. It corresponds to the second table in Annex 3 to brief E2. The footnote to that table applies equally to these figures - ie the change between 1987-88 and 1988-89 is distorted by the allocation of the Reserve in 1987-88.



MISS S P B WALKER

	Real terms change on previous year		
	1988-89	1989-90	1990-91
Ministry of Defence	-3.0	0.4	0.0
FCO - Diplomatic wing	-0.9	-0.8	-0.3
FCO - Overseas Development Administration	3.1	1.5	0.1
European Communities	-45.3	77.5	-12.8
Ministry of Agriculture, Fisheries and Food	-0.7	1.8	4.3
Department of Trade and Industry	27.7	-7.0	-7.2
Export Credits Guarantee Department	-19.7	0.8	-15.7
Department of Energy	-58.6	-249.5	117.5
Department of Employment	-1.0	-2.1	-1.7
Department of Transport	2.5	-4.0	-1.1
DOE - Housing	14.6	-3.9	-1.6
DOE - other environmental services	-9.2	1.4	-0.4
Home Office	0.0	0.7	-0.3
Legal departments	6.1	3.1	3.0
Department of Education and Science	0.1	0.2	-0.2
Office of Arts and Libraries	-3.5	0.6	0.3
DHSS - health and personal social services	1.2	1.3	1.5
DHSS - social security	-0.1	2.1	1.8
Scotland	-1.0	-2.3	-1.1
Wales	-0.3	-0.7	0.0
Northern Ireland	0.5	-0.1	0.1
Chancellor's departments	1.9	1.9	0.6
Other departments	8.0	-1.8	0.9
PLANNING TOTAL	1.7	2.9	2.3

DRAFT

pse type final

mpw.

FROM: THE CHANCELLOR
 DATE: 6 NOVEMBER 1987

MR SCHOLAR

cc PS/Chief Secretary
 Sir P Middleton
 Mr F E R Butler
 Mr Sedgwick
 Mr Turnbull
 Mr R I G Allen
 Miss O'Mara
 Mr McIntyre
 Mr Dyer
 Mr Porteous
 Mr Rawlings
 Mr Rogers
 Mr Fray
 Miss Titmuss - CRU
 Mr Jiwani - Committee
 Section
 Miss Robinson - WPU

Ch/You sent a
 similar thank-you
 last year. Would
 you like to send
 something along
 these lines?

mpw

6/11

AUTUMN STATEMENT

Very many thanks to you and all of your colleagues who worked so hard to make the Autumn Statement run without a hitch. The last couple of weeks have been particularly busy this year and it was most reassuring to know the AS was in such good hands.

Autumn Statement

2. I should be grateful if you could pass on my thanks to all those involved in the preparation, the briefing, the typing, the photocopying and the distribution, for their part in helping ensure that everything worked so smoothly.

NIGEL LAWSON



pmf

FROM: THE CHANCELLOR
DATE: 9 NOVEMBER 1987

MR SCHOLAR

cc PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Sedgwick
Mr Turnbull
Mr R I G Allen
Miss O'Mara
Mr McIntyre
Mr Dyer
Mr Porteous
Mr Rawlings
Mr Rogers
Mr Fray
Miss Titmuss - CRU
Mr Jiwani - Committee
Section
Miss Robinson - WPU

AUTUMN STATEMENT

Very many thanks to you and all of your colleagues who worked so hard to make the Autumn Statement run without a hitch. The last couple of weeks have been particularly busy this year and it was most reassuring to know the Autumn Statement was in such good hands.

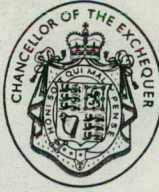
2. I should be grateful if you could pass on my thanks to all those involved in the preparation, the briefing, the typing, the photocopying and the distribution, for their part in helping ensure that everything worked so smoothly.

A handwritten signature in dark ink, appearing to be 'NL' with a flourish underneath.

NIGEL LAWSON

CONFIDENTIAL

mpw



FROM: MOIRA WALLACE
DATE: 11 November 1987

MR DYER

cc Mr Scholar
Miss Evans

AUTUMN STATEMENT DEBATE

The Chancellor has seen your minute of 10 November and has commented that he strongly prefers the week beginning 14 December.

mpw.

MOIRA WALLACE

CONFIDENTIAL



FROM: B O DYER
DATE: 10 November 1987

01-270 4520

CHANCELLOR

cc Mr Scholar
Miss Evans

AUTUMN STATEMENT DEBATE

This note seeks your views on the timing of the debate on the Autumn Statement.

2. I am advised Murdo Maclean currently favours the week beginning 7 December. This is unlikely to find favour, however, with Terence Higgins and his colleagues on the TCSC. To enable the Committee to produce its report in time for the debate, they would much prefer the following week - ie the week immediately preceding the Christmas recess, as last year (17 December 1986).

3. The rationale for this is as follows. It seems inevitable that there will need to be a debate on the composition of Departmental Select Committees (ie the Selection Committee's recommendations) next week. Assuming a successful conclusion, the TCSC would meet in the following week (beginning Monday 23 November) for its organisational meeting; and seek evidence from officials and yourself in the period Wednesday 25 November to Monday 7 December. Although a tight timetable, the Committee could still produce their report in time for a debate in the week beginning Monday 14 December - ie the last sitting week before the House rises for Christmas.

4. If the debate on the Autumn Statement was in the preceding week (beginning Monday 7 December), the prospect of the TCSC being able to produce a report in time for the debate would be very much less secure. Clearly, Mr Higgins

CL
Murd letter in last week?

AA

Stings
work


page
begin

14 Dec
Mr

and the TCSC would be distressed to miss out with their report by just a day or two. On the other hand, the tenor of their report might provide little useful mileage for you in the debate.

5. On balance, I favour trying to meet Mr Higgins' obvious preference and seek to persuade the Business Managers to hold the debate during the week beginning Monday 14 December. It might also provide you with a useful hedge against any pressure for an economic debate or statement immediately prior to the recess, if there were late developments on the American deficit, equity market or G7 front.

Do you agree?



B O DYER

PS The Leader of the House has asked for a 'Line to Take' if questioned, during the Business Statement on Thursday, on the timing of the Autumn Statement debate. I propose to suggest the following:

'There will be a debate on the Autumn Statement before the Christmas recess. But I cannot announce its date yet.'

CONFIDENTIAL



cc

PS/Chancellor

PS/CST

PS/FST

PS/PMG

PS/EST

Alex
 Mr Scholar
 Mr R I G Allen
 Miss Evans
 Mr Cropper

Treasury Chambers, Parliament Street, SW1P 3AG
 01-270 4520

Murdo Maclean Esq
 Office of the Government Chief Whip
 12 Downing Street
 LONDON
 SW1

11 November 1987

Dear Murdo,

AUTUMN STATEMENT DEBATE

You will already be giving some thought to the business for the Commons in the run-up to the Christmas recess. In this context, you will wish to take account of the Chancellor's strong preference on the timing of the debate on the Autumn Statement.

2. In the expectation that the TCSC is operational by the end of this month, the Chancellor very much favours the week beginning Monday 14 December for the Autumn Statement debate. This will enable the TCSC to take evidence from Treasury officials, the Chancellor and produce their report in time for the debate. It would also provide the Chancellor and the Government with a useful hedge (or vehicle) if there were late developments on the American deficit, equity market or G7 front which led to pressure for a debate or statement immediately prior to the recess.

3. Finally, as you are aware, we have been asked to provide the Leader of the House with a 'Line to Take' if questioned on the timing of the Autumn Statement debate during the Business Statement tomorrow. The following would seem appropriate and entirely consistent with what the Leader said last week:

"There will be a debate on the Autumn Statement before the Christmas recess. But I cannot announce its date yet."

4. Given the latter request, a copy of this letter goes to Alison Smith in the Lord Privy Seal's Office.

Yours sincerely,
Brian Dyer

B O DYER
 Parliamentary Clerk

~~19/11~~~~Maura (sat on, as requests)~~
AlexAlex
can we prep
this now?FROM: MISS C EVANS
DATE: 12 NOVEMBER 1987

MR A C S ALLAN

12/2.

cc Sir Peter Middleton
Sir Geoffrey Littler
Sir Terence Burns
Mr Butler
Mr Cassell
Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr Odling-Smee
Mr Peretz
Mr R I G Allen
Mrs O'Mara Mr Dyer
Mrs Thorpe**TCSC: AUTUMN STATEMENT HEARINGS**

Mr Higgins has asked us to pencil in possible dates for the Chancellor's and officials' evidence on the Autumn Statement with a view to enabling the Committee to produce its report in time for a debate on the Autumn Statement in the week beginning 14 December. If the Committee is set up in time to hold its first meeting on 23 November (which may well not happen given the continuing problems with the Scottish Committee), possible dates, assuming hearings at the normal times of 4.45 on Monday or Wednesday (which I have checked with the Chancellor's, Sir Peter Middleton's and Sir Terence Burns' diaries), are

	Option A	Option B
Officials	25 November	30 November
Chancellor	2 December	2 December

2. Is the Chancellor content for us to plan, provisionally, on this basis? Option B is uncomfortably tight but the next option of 7 December is ruled out because I understand from Sir Geoffrey Littler that the Chancellor may well need to attend ECOFIN on that day.

C Evans

MISS C EVANS

Business of the House

3.31 pm

Mr. Roy Hattersley (Birmingham, Sparkbrook): May I ask the Leader of the House to state the business for next week?

The Lord Privy Seal and Leader of the House of Commons (Mr. Wakeham): Yes, Sir. The business for next week will be as follows:

MONDAY 16 NOVEMBER — Proceedings on the Consolidated Fund Bill.

Second Reading of the Immigration Bill.

Motions on Food Protection (Emergency Prohibitions) Orders. Details will be given in the *Official Report*.

TUESDAY 17 NOVEMBER—Opposition Day (3rd Allotted Day). There will be a debate on an Opposition motion entitled "The Failure of the Government to Provide Adequately for the Transport Needs of the Nation."

Motion relating to the Education (Governing Bodies of Institutions of Further Education) Regulations.

WEDNESDAY 18 NOVEMBER—Debate on a Government motion to take note of the White Papers on Developments in the European Community July-December 1986 (CM.122) and January-June 1987 (CM.205) and EC documents relating to the future financing of the Community. Details of the EC documents concerned will be given in the *Official Report*.

Motion on the Family Credit (General) Regulations.

THURSDAY 19 NOVEMBER — Motion on the Housing Benefit (General) Regulations.

FRIDAY 20 NOVEMBER—Private Members' motions.

MONDAY 23 NOVEMBER—Opposition Day (4th Allotted Day). The debate will arise on a motion in the name of the Leader of the Liberal party. Subject for debate to be announced.

[Debate on Monday 16 November 1987

Food Protection (Emergency Prohibitions) (No. 3) Order 1987 (S.I. 1987, No. 1837)

Food Protection (Emergency Prohibitions) (No. 4) Order 1987 (S.I. 1987, No. 1888)

Food Protection (Emergency Prohibitions) (Wales) (No. 5) Order 1987 (S.I. 1987, No. 1894)

Debate on Wednesday 18 November

Relevant European Documents:

- | | |
|----------------|---|
| (a) COM(87)100 | Future policies in light of Single European Act |
| (b) COM(87)101 | Future financing of the Community Budget |
| (c) 8248/87 | Budgetary Discipline |
| (d) 8249/87 | Own Resources |
| (e) 8251/87 | Reform of structural funds |
| (f) 8087/87 | Amendment to Financial Regulation |
| (g) 8940/87 | Third Amendment to Financial Regulation |

Relevant Reports of European Legislation Committee:

- | |
|----------------------------------|
| (a) HC 22-xvii (1986-87), para 6 |
| HC 22-xx (1986-87), para 2 |
| (b) HC 22-xix (1986-87), para 1 |
| (c) HC 43-v (1987-88), para 3 |
| (d) HC 43-v (1987-88), para 3 |
| (e) HC 43-v (1987-88), para 15 |
| (f) HC 43-v (1987-88), para 15] |

Mr. Hattersley: I am grateful to the right hon. Gentleman. I want to ask the Leader of the House three

specific questions. First, he will recall that the Government have taken a decision to deny unemployment benefit for six months to employees who it is said have left their jobs unreasonably. Should not a statement on that subject have been made to the House? Will he arrange for a statement to be made to the House next week justifying that petty and vindictive act?

Secondly, when is the House likely to debate the Autumn Statement? Must we wait for the constitution of the Treasury and Civil Service Committee and then for the Committee to consider the Autumn Statement? The Opposition believe that we should debate it more speedily than that.

Thirdly, with regard to the section 2 of the Official Secrets Act 1911, the only thing that became clear during the Prime Minister's comments today concerned the prospects of the hon. Member for Thanet, South (Mr. Aitken) ever receiving a knighthood. We need to know the Government's intentions on that Act. May we be assured that there will be no press leaks and that the Prime Minister, or whoever is lucky enough to have responsibility for the subject, will come to the House as soon as a decision is finally made and tell the House, rather than tell the newspapers as happened earlier this week?

Mr. Wakeham: The right hon. Gentleman asked me three specific questions. On the regulations concerning voluntary unemployment, the benefit sanctions are intended to discourage people from leaving jobs without good reason. The House will have ample opportunity to debate these changes, which require an affirmative order and regulations. Therefore, I see no need for a statement to be made next week.

With regard to the Autumn Statement, it would be obviously to the benefit of hon. Members if the House could have the advice of the Treasury and Civil Service Committee before it debates the matter, but I recognise the need to get on with it. I give a clear undertaking that the debate on the Autumn Statement will be before the Christmas recess.

With regard to Official Secrets Act 1911, I cannot say other than that work is going on. A statement will be made to the House as soon as a decision is made.

Mr. Terence L. Higgins (Worthing): Does my right hon. Friend accept that there will be great difficulties if the Select Committees are not set up by next week, not least in the context of the Autumn Statement that the right hon. Gentleman mentioned? Will he make sure that time is available to ensure that that occurs in the course of proceedings next week?

Mr. Wakeham: I recognise what my right hon. Friend has said. I note that the recommendations of the Committee on selection are on the Order Paper, but they were blocked. It will be a matter for the Chairman of the Committee to determine when he would like them brought before the House again.

Mr. James Wallace (Orkney and Shetland): The Leader of the House will be aware that NIREX issued a discussion document today on the disposal of radioactive waste. Given the concern of many hon. Members about the issue and the fact that NIREX wants a wide discussion on it, will the Government provide time to discuss the matter in the House?

Secondly, does the Leader of the House agree that, given the support yesterday by the hon. Member for

Wakeham (Mr. Gould) for the B-Cal-BA merger and the apparent opposition to it by the Leader of the Opposition, a debate would be useful to elucidate the Labour party's position?

Mr. Wakeham: The second part of the hon. Gentleman's question seems to be a subject that could well form part of next Tuesday's transport debate.

Responsibility for identifying a suitable method of and location for a disposal facility rests with NIREX. Its consultation exercise began today with the publication of a discussion paper. Hon. Members are encouraged to read that paper and comment to NIREX. It would be better to await the outcome of the consultation exercise and see what proposals NIREX brings forward before considering a debate.

Mr. Teddy Taylor (Southend, East): In view of the imminence of the Eurotunnel share offer, does my right hon. Friend agree that it is vital that the Chancellor of the Exchequer makes an early statement to assure us that the welcome and repeated assurances about Government finance for the tunnel will not be undermined by the Bank of England, which is an arm of Government, using cash in its control to invest in the project?

Mr. Wakeham: I recognise that at a late hour during Tuesday's sitting I did not give my hon. Friend a full answer to the question that he asked in slightly different terms. There is no intention to use either the issue department or the banking department of the Bank of England to buy equity share capital in Eurotunnel. I shall refer my hon. Friend's interest to my right hon. Friend the Chancellor.

Mr. Dick Douglas (Dunfermline, West): Will the Leader of the House accept that all hon. Members greatly appreciate the courtesy shown to the House by the Chancellor of the Duchy of Lancaster in making a statement today on the European Space Agency, despite the dislocation of business yesterday? Will he accept that that only highlights the discourtesy to the House of the lack of a statement on Scottish Homes by the Secretary of State for Scotland? Will he ask his colleague the Secretary of State for Scotland to come forward next week and show some courtesy to the House?

Mr. Wakeham: I cannot accept that criticism. The Secretary of State was willing to make a statement to mark the publication of the White Paper. However, the date of publication having passed, there is no urgent need for discussion. Opportunities for full discussion will arise during the debates on the proposed legislation.

Mr. Michael Latham (Rutland and Melton): Bearing in mind the importance of the Housing Bill to the Government's housing policy, does my right hon. Friend expect it to be published next week?

Mr. Wakeham: I cannot give my hon. Friend a firm undertaking, but it will be published shortly.

Mr. Nigel Spearing (Newham, South): With regard to next Wednesday's business will the Leader of the House consider providing separate debates for the retrospective consideration of White Papers and the prospective consideration of future financing? In that regard, is he aware that the proposals for Britain's rebate payments, which will replace the Fontainebleau formula negotiated by the Prime Minister, have been outlined in Commission

document 101? I have it on good authority that the document was published yesterday in Brussels. Will the right hon. Gentleman do his best to ensure that that document is before the House during the debate on Wednesday?

Mr. Wakeham: I recognise the hon. Gentleman's great knowledge and interest in these matters, but I cannot give him the undertaking that he requires. If by chance he and I should have a discussion about these matters later today, we will be able to discuss the matter in more detail.

Mr. Patrick Cormack (Staffordshire, South): For the third successive week may I raise the subject of haemophiliac AIDS victims? Is my right hon. Friend aware that the sympathy and understanding that he showed last week was greatly appreciated and gave considerable encouragement to those outside as well as inside the House? May we expect a statement from the Secretary of State for Social Services next week? If the Government were to respond to the needs of these people and their reasonable requests, that would be warmly welcomed.

Mr. Wakeham: I accept what my hon. Friend says, and I hope that we will deal with the matter as soon as possible.

Mr. Sydney Bidwell (Ealing, Southall): Will the right hon. Gentleman join me in expressing horror at the events of a few hours ago in my constituency, with the death of one man, and possibly others? Does he agree that everything possible should be done to bring the culprits to book and that nothing should stand in the way of the efforts of the police to achieve that end? The local community and others should be cautioned against jumping the gun or leaping to premature conclusions.

Mr. Wakeham: I am sure that the House shares those sentiments. May I say how much we appreciate the leadership that the hon. Gentleman has shown for many years in trying to maintain understanding between the communities in his constituency.

Mr. Robin Maxwell-Hyslop (Tiverton): As it is absolutely clear that there is no point in the Chairman of the Selection Committee retabling the motion to set up the Select Committees unless and until the Government give time for that above the line on the Order Paper, to prevent automatic blocking, when is my right hon. Friend going to give time that will enable the Chairman of the Selection Committee to take effective rather than nominal action for the setting up of the Select Committees?

Mr. Wakeham: The Chairman of the Committee of Selection will not find me wanting. As soon as he feels that he has a reasonable chance of resolving these matters I shall act, because I am as anxious as he is to get on with setting up the Committees.

Mr. Dennis Skinner (Bolsover): Does the Leader of the House recall that in August I wrote to him about the allocation of money to Opposition parties, particularly the problem that he has in the allocation of that money to the SDP? Is he aware that the allocation is based on the number of Members of Parliament returned, together with a sum of money allocated on the basis of the number of people who cast votes at the general election preceding the allocation of the money? As we have not one, but possibly two SDP parties, how will he allocate the money? If a rump of SDP supporters form a mutation and choose a

[Mr. Wakeham]

to work within their budgets. Measures recently announced by the Calderdale health authority will not affect the overall level of service provided to patients. Faldon hospital's case represents only the earlier implementation of the plans contained in its longer-term strategy.

Mr. Dickens: Following the debate in the Church of England Synod this week and the helpful advice that we have received in this honourable House on occasions from bishops, will my right hon. Friend make some time available for a debate on the future of the Church of England, so that we can call on the Church to purge its pulpits of homosexual vicars, many of whom have proved to be a danger to children?

Mr. Wakeham: I recognise the strong feelings of my hon. Friend and of other hon. Members. However, I am afraid that I cannot offer any Government time in the near future.

Mr. D. N. Campbell-Savours (Workington): I have lost my voice, Mr. Speaker, but may I ask the Leader of the House to reconsider the answer that he gave to my hon. Friend the Member for Stockton, North (Mr. Cook)? Does he recall that on the last occasion that NIREX made recommendations they failed, there was a row, and the Minister and, indeed, the Leader of the House, had to be rescued before the general election? We do not want that to happen again. May we have a debate on these matters prior to the recommendations being made?

Mr. Wakeham: I am sorry that the hon. Gentleman has lost his voice, but I am not sure that my sympathy is shared by everybody in the House. However, he seems to have lost his memory also, because my recollection of events is different from the one that he has recounted to the House.

Mr. David Shaw (Dover): Will my right hon. Friend please take note of the Eurotunnel share advertisements, which suggest that a number of free journeys across the English channel may be obtained by the buyers of certain numbers of shares? Will he draw that to the attention of his right hon. Friend the Chancellor of the Exchequer, so that an early statement can be made to the effect that such free offers on journeys would be a benefit received by shareholders and would be assessable to income tax? In consequence, the offer may seem less attractive, and investors should be fully informed of that when the prospectus is published.

Mr. Wakeham: The question of any prospectus and the terms in which it is couched are fully covered in our statute law. Eurotunnel is a private consortium that takes its own decisions. I do not believe that there is any responsibility on me to tell the House that it can get on with it.

Mr. Tam Dalyell (Linlithgow): In view of your concern, Mr. Speaker, about standards in the House being in grave disrepute, and because standards start at the top, has the Leader of the House noticed the following early-day motion: No. 228.

[That this House notes in the book, *Campaign*, by Rodney Tyler, *The Selling of the Prime Minister: from behind the doors of Downing Street and Conservative Central Office—A unique inside account of the Battle for Power that the author on page 1, chapter 1, paragraph 1, sentence 1, states 'It was an extraordinary turnaround in*

fortunes from the moment on 27th January 1986 when Mrs. Thatcher secretly confided to a close associate that she might have to resign . . .' and on page 3 that 'On the eve of the crucial Westland debate she herself felt shakey enough to doubt her future' though some around her later sought to dismiss this as late evening anxieties of the sort that had disappeared the following morning). It is certainly true that if Leon Brittan had chosen to, he could have brought her to the brink of downfall, by naming the real culprits inside Number 10. Instead, he chose to remain silent', and calls on the Prime Minister to give a full account of what transpired between 3rd January and 27th January 1986, at Number 10 Downing Street, in relation to the selectively leaked Law Office's letter concerning the Westland Affair].

No. 253,

[That this House notes that the Member for Aldershot on page 136 of his book *Heseltine: the unauthorised Biography*, states in relation to the Westland Affair that 'John Wakeham issued an order of the day which contained the trite, if effective message, that it was time for all good men to come to the aid of the party, we did and calls on the Leader of the House, The Right Honourable Member for South Colchester and Maldon, to explain when he first knew the role of the then Trade and Industry Secretary, The Right Honourable Member for Richmond, Yorks, in the matter of the disclosure of a selectively leaked Law Officer's letter.]

No. 272,

[That this House notes that in his book *Mrs. Thatcher's Revolution*, published this week by Jonathan Cape and Co., Mr. Peter Jenkins writes, on page 200 'Brittan himself refused to enlighten the Select Committee on any point of substance. However, he is reputed to have told close friends subsequently that not only has she known perfectly well what had happened but that, on the day following the leak, had expressed her satisfaction to him at the way things had been handled. However at that time, the downfall of Heseltine had not been achieved. . . . He (Mr. Brittan) might point the finger at her (Mrs. Thatcher). Potentially he now had the power to destroy her'; and calls on the Prime Minister to give the House a full account of her conversations with the then Secretary of State for Trade and Industry, the Right honourable Member for Richmond, Yorks, over the period from 3rd January and 27th January 1986, in relation to the selectively leaked Law Officer's letter concerning the Westland Affair.]

No. 273,

[That this House notes that in *The Thatcher Years—A decade of Revolution in British Politics*, published by BBC Books, Mr. John Cole, on page 170, considering the selectively leaked Law Officer's letter in the Westland Affair, writes 'why did he (Sir Robert Armstrong) not give her a quick interim report when he discovered that the leak was an inside job, authorised by her office? Why did Leon Brittan not tell her? Or the private secretary concerned? Or his chief, who sits in the same room? Or her press secretary? And why did she never ask?'; and calls on the Prime Minister to inform the House of the answers to these questions.]

No. 286,

That this House notes that, in the book 'Not with Honour—The Inside Story of the Westland Scandal', on page 142, Magnus Linklater and David Leigh write that 'Instead, following Havers's complaint, she spoke privately to Brittan about the leak. Although this is something the Prime Minister has failed to disclose, to widespread disbelief, the evidence comes from an authoritative source, who told us: "The Prime Minister knew about the leak. She was pleased

UNCLASSIFIED

pwp



FROM: A C S ALLAN

DATE: 13 NOVEMBER 1987

MISS C EVANS

cc Mr Dight

AUTUMN STATEMENT TIMETABLE: ORAL STATEMENT

Thank you for showing me a copy of your draft minute on this.

2. We could not possibly have a deadline for comments of 9.30am on the day of the Statement. It is much too late to plan to start running off the copies at 10am: ideally we should run them off overnight, but at the latest we need to start about 8am.

3. Our deadline for comments therefore needs to be 7pm the previous evening, so that we clear ^{them} with the Chancellor that evening.
^

ACSA

A C S ALLAN

Mr A C S Allan

cc Mr Fray

Are you happy with this? - (discussed with Mr Fray)

FROM: MISS C EVANS
DATE: 5 NOVEMBER 1987

RAFT

Conys En
S. 11.

- 1. MR SCHOLAR
- 2. MR BUTLER

cc Mr A C S Allan
Mr Fray

Tony Dight,
OK?
Alex

AUTUMN STATEMENT TIMETABLE: ORAL STATEMENT

You asked at Second Secretaries about the timetable for finalising the oral statement on Autumn Statement morning. The constraint is that the Chancellor's Office need to have the statement copied and inserted into over 160 packages with the other documentation (printed document, Press Notices etc) for circulation, starting with No 10 by midday. To achieve this all components of the package, including the oral statement, need to be finalised by 10am. Any later than this means that the distribution timetable slips.

2. In our routine Autumn Statement post mortem we are suggesting that this deadline should be promulgated so that it is clear that any amendments to the statement need to be agreed with the Chancellor by 9.30am (to allow time for retyping etc) so that copying can start at 10am.

Alex

Para 2 assumes the worst possible scenario and would leave us sitting ducks. If we set a deadline on the morning of the AS it is bound to be overlooked and would leave us very vulnerable. I would much prefer a final deadline for officials comments in the early evening on the night before the AS with the Chancellor deciding on when the statement can be considered final - hopefully on the same evening.

MISS C EVANS

Migel

UNCLASSIFIED



FROM: A C S ALLAN

DATE: 13 NOVEMBER 1987

MR K SEDGWICK

cc Mr Scholar
Miss C Evans**AUTUMN STATEMENT POST MORTEM**

We have a few comments on your minute of 6 November to Mrs Ryding.

Departments' Press Notices

2. As you say, these always are a problem. We now feel that we need to follow up our earlier letter to private secretaries with a reminder letter on the Friday before the Autumn Statement, requesting a named contact in private office as well as the official contact. We also, as you say, need to stress the arrangements for urgent delivery. And to make it clear that when we say 100 copies we mean 100 copies (not 97!). In fact, I think we shall bump up our requirements to give a safety margin.

Timing

3. I have minuted Miss Evans separately to say that a deadline of 9.30 am on the day of the Statement is unacceptably late for comments on the Oral Statement.

A handwritten signature in black ink that reads 'ACSA' with a horizontal line underneath.

A C S ALLAN

FROM: K SEDGWICK

DATE: 6 November 1987

MRS RYDING

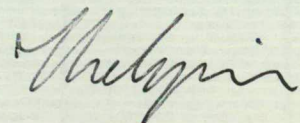
Alex

cc Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr A C S Allan
Miss O'Mara
Mr R I G Allen
Mr Hibbard
Mr Macintyre
Mr Gieve
Mr Hudson
Miss Walker
Mr Allum
Mr Owen
Miss Evans
Mr Dyer
Mr Scotter
Mr Rawlings
Mr Flitton
Mr Fray

AUTUMN STATEMENT POST MORTEM

As usual after the Autumn Statement we are carrying out a post mortem to see if there are any lessons for next year; either problems to avoid next time, or points which went well and which we need to remember to repeat next year.

2. The arrangements seemed to go smoothly this year in spite of the particularly tight timetable, but I would be grateful if copy recipients could let me know of any points which we need to remember in drawing up the timetable and aide memoire for next year. The points which occur to us in FP are set out in the attached note. I should be grateful for your views and those of copy recipients by Friday 13 November please.



K SEDGWICK

1987 AUTUMN STATEMENT : POST MORTEM

Departments' Press Notices

This area always causes problems. There will always be a last minute scramble either to clear figures with us or to get the go-ahead from Departmental Ministers, but there are some aspects of the arrangement where improvement seems possible. I have identified the following:

- i. We need to emphasise to Treasury expenditure divisions the importance of this part of the operation and so that they do not - as happened this year - agree with their departments that the instructions issued did not apply to them. Perhaps a note from Mr Turnbull could remind Treasury divisions about this just before next year's Autumn Statement.
- ii. Departments' private offices did not always pass on information about the detailed arrangements to the person responsible for their press notice. In addition, the contacts nominated in Departments were not always available when things went awry and a lot of time was wasted trying to track down someone else who could help. This should be covered in the letter next year.
- iii. Despite missing deadlines some Departments (notably the FCO) failed to address the packs of press notices appropriately, or indicate the urgency of delivery, and much time was wasted trying to track down a missing package; although an obvious point, perhaps it is one that needs to be made in the instructions.
- iv. GE to clear with FP the draft for the PPS to send to PSs setting out the arrangements for press notices.

Timing

2. This year the timing of meetings with senior officials and the Chancellor on various drafts of the printed AS chapters worked well and we need to follow the same sequence next year. The aim is to set up the meetings well in advance, ie early September, to ensure that all the necessary participants are available.

3. The exact time of finalising and copying the oral statement will depend on circumstances on the morning of the Autumn Statement. But it would be useful if next year's aide memoire were to set an optimal time ie late enough to take on board last minute overnight amendments, but early enough to allow time for the Chancellor's office to assemble packages etc. I suggest that the deadline might be 9.30 am - ie any revisions to the oral statement must be agreed by then to allow time for retyping and for copying to start at 10 am.

Consultation

4. Subject to the need for secrecy about the Autumn Statement date, we need to ensure that we inform the Bank of England and the Revenue departments so that we can coordinate publication date of BEQB and clear texts and figures with them. (Action: FP/MG/PSF).

FROM: K SEDGWICK

DATE: 6 November 1987

MRS RYDING

cc Mr Scholar
 Mr Sedgwick
 Mr Turnbull
 Mr A C S Allan
 Miss O'Mara
 Mr R I G Allen
 Mr Hibbard
 Mr Macintyre
 Mr Gieve
 Mr Hudson 13/2
 Miss Walker
 Mr Allum
 Mr Owen
 Miss Evans
 Mr Dyer
 Mr Scotter
 Mr Rawlings
 Mr Flitton
 Mr Fray

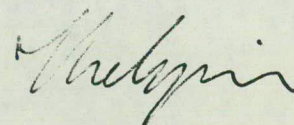
Mr Allan

1. A domestic point - if Mansion House cannot be mid-Oct, it should be mid & not early Nov.
2. An entry in the Aide - Memoire for final comments on the Oral Statement won't achieve much, but is better in than out. It must be final comments by 5 pm the night before.
3. Various points from the briefing angle, but are you taking those up separately?

AUTUMN STATEMENT POST MORTEM

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K SEDGWICK

1987 AUTUMN STATEMENT : POST MORTEM

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This area always causes problems. There will always be a last minute scramble either to clear figures with us or to get the go-ahead from Departmental Ministers, but there are some aspects of the arrangement where improvement seems possible. I have identified the following:

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Only from CX
Comments from
others must
be right
before.

AH

Consultation

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18 mins

PLW/P

Spae.

AUTUMN STATEMENT: ORAL STATEMENT 1986

WITH PERMISSION, MR SPEAKER, I SHOULD LIKE TO MAKE A STATEMENT.

CABINET TODAY AGREED THE GOVERNMENT'S PUBLIC EXPENDITURE PLANS FOR THE NEXT THREE YEARS.

IN THE NORMAL COURSE OF EVENTS THAT WOULD BE FOLLOWED BY THE PUBLICATION OF THE PRINTED AUTUMN STATEMENT, ACCOMPANIED BY AN ORAL STATEMENT TO THE HOUSE, NEXT TUESDAY.

FOR OBVIOUS REASONS THAT IS NOT POSSIBLE THIS YEAR.

SO WHILE THE AUTUMN STATEMENT WILL BE PRINTED IN THE NORMAL WAY AND PRESENTED TO PARLIAMENT AS SOON AS THE HOUSE REASSEMBLES NEXT WEDNESDAY, I THOUGHT IT WOULD BE FOR THE CONVENIENCE OF THE HOUSE IF I MADE MY ORAL STATEMENT TODAY.

THIS WILL COVER ALL THREE OF THE KEY ELEMENTS IN THE PRINTED STATEMENT: THE GOVERNMENT'S OUTLINE PUBLIC EXPENDITURE PLANS FOR EACH OF THE NEXT THREE YEARS AND THE EXPECTED OUTTURN FOR THIS YEAR; PROPOSALS FOR NEXT YEAR'S NATIONAL INSURANCE CONTRIBUTIONS; AND THE FORECAST OF THE ECONOMIC PROSPECTS FOR 1987 REQUIRED BY THE 1975 INDUSTRY ACT.

THE FULL TEXT OF THE ECONOMIC FORECAST, TOGETHER WITH THE PUBLIC EXPENDITURE FIGURES AND THE REST OF THE INFORMATION CUSTOMARILY PUBLISHED WITH THIS STATEMENT WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

THEY WILL ALSO APPEAR IN THE PRINTED AUTUMN STATEMENT TO BE PUBLISHED NEXT WEEK.

I TURN FIRST TO THE OUTTURN FOR THE CURRENT FINANCIAL YEAR, 1986-87.

THE PUBLIC EXPENDITURE PLANNING TOTAL NOW LOOKS LIKELY TO AMOUNT TO ALMOST £140½ BILLION - £1¼ BILLION, OR A LITTLE LESS THAN 1 PER CENT, ABOVE WHAT WAS ALLOWED FOR IN THIS YEAR'S PUBLIC EXPENDITURE WHITE PAPER.

THE MAIN REASON FOR THIS EXCESS IS A 9 PER CENT RISE IN THE CURRENT SPENDING OF LOCAL AUTHORITIES - FAR MORE THAN WAS PROVIDED FOR.

HOWEVER, OTHER ITEMS ON THE EXPENDITURE SIDE, THE LARGEST OF WHICH IS DEBT INTEREST, ARE LIKELY TO FALL SHORT OF WHAT WAS FORECAST AT THE TIME OF THE BUDGET, THUS REDUCING THE TOTAL OVERRUN ON THE EXPENDITURE SIDE TO ABOUT £½ BILLION.

ON THE RECEIPTS SIDE, THE NORTH SEA TAX TAKE IS LIKELY TO BE EVEN LOWER, BY ABOUT £1 BILLION, THAN I ENVISAGED AT THE TIME OF THE BUDGET, LARGELY BECAUSE FOR A LONG PERIOD THE OIL PRICE HAS BEEN BELOW THE \$15 A BARREL LEVEL ON WHICH THE BUDGET ARITHMETIC WAS EXPLICITLY BASED.

THIS SHORTFALL, HOWEVER, IS MORE THAN OFFSET BY THE CONTINUING BUOYANCY OF NON-OIL TAX REVENUES, IN PARTICULAR VAT AND CORPORATION TAX.

NON-OIL REVENUES NOW LOOK LIKELY TO EXCEED THE BUDGET FORECAST BY £2 BILLION.

THIS WOULD IMPLY A NET OVERRUN ON THE RECEIPTS SIDE OF ABOUT £1 BILLION, RATHER MORE THAN THAT ON THE EXPENDITURE SIDE.

BUT THIS WILL BE REDUCED BY A CHANGE I PROPOSE TO MAKE TO THE NORTH SEA FISCAL REGIME.

THE COLLAPSE OF THE OIL PRICE HAS LED TO A SHARP CUTBACK IN INVESTMENT ACTIVITY IN THE NORTH SEA, WITH INEVITABLE CONSEQUENCES FOR THE UK OFFSHORE SUPPLIES INDUSTRY BOTH IN SCOTLAND AND THE NORTH EAST OF ENGLAND.

I THEREFORE PROPOSE, ON A CAREFULLY TARGETED BASIS, TO ACCELERATE THE ARRANGEMENTS FOR THE REPAYMENT TO THE OIL COMPANIES OF ADVANCE PETROLEUM REVENUE TAX DUE TO THEM.

THE DETAILS OF THIS CHANGE, WHICH WILL REQUIRE LEGISLATION EARLY IN THE NEW SESSION OF PARLIAMENT, ARE SET OUT IN A PRESS NOTICE WHICH THE INLAND REVENUE WILL BE ISSUING AS SOON AS I HAVE SAT DOWN.

THE NEW ARRANGEMENTS WILL HAVE A REVENUE COST THIS FINANCIAL YEAR OF SOME £300 MILLION, WHICH WILL BE FULLY RECOUPED OVER THE NEXT THREE YEARS.

TAKING THIS INTO ACCOUNT, THE PUBLIC SECTOR BORROWING REQUIREMENT FOR THE CURRENT YEAR IS STILL FORECAST TO BE ABOUT £7 BILLION, THE FIGURE I SET IN THE BUDGET.

I TURN NOW TO THE PUBLIC EXPENDITURE PLANS FOR THE NEXT THREE YEARS.

SINCE 1982-83, PUBLIC SPENDING, BOTH BEFORE AND AFTER DEDUCTING THE PROCEEDS OF PRIVATISATION, HAS BEEN DECLINING AS A PROPORTION OF NATIONAL OUTPUT.

IT IS SET TO BE LOWER STILL THIS YEAR.

THE GOVERNMENT IS DETERMINED TO ENSURE THAT THIS TREND CONTINUES: TO SEE TO IT THAT TOTAL PUBLIC SPENDING, EVEN WITHOUT TAKING ACCOUNT OF PRIVATISATION PROCEEDS, CONTINUES TO DECLINE AS A PERCENTAGE OF GDP.

THE PLANS I AM ABOUT TO ANNOUNCE FOR THE NEXT THREE YEARS SECURE THAT OBJECTIVE.

INDEED, THEY SHOW THAT BY THE END OF THE PERIOD THE RATIO OF PUBLIC SPENDING TO NATIONAL OUTPUT WILL BE BACK TO THE LEVEL OF THE EARLY SEVENTIES.

BUT WITHIN THIS OVERALL CONSTRAINT, AND IN THE CONTEXT OF ITS POLICY PRIORITIES, THE GOVERNMENT HAS FELT IT RIGHT TO ALLOW AN INCREASE IN THE PREVIOUSLY ANNOUNCED PLANNING TOTALS FOR 1987-88 AND 1988-89.

COMPARED WITH THE PROSPECTIVE OUTTURN FOR THE CURRENT YEAR, WE ARE NOW PLANNING FOR AN AVERAGE GROWTH IN THE PUBLIC EXPENDITURE PLANNING TOTAL OF ABOUT $1\frac{1}{4}$ PER CENT A YEAR IN REAL TERMS, WELL WITHIN THE PROSPECTIVE GROWTH OF THE ECONOMY AS A WHOLE.

THE NEW PLANNING TOTALS HAVE THUS BEEN SET AT £148½ BILLION FOR 1987-88 AND £154¼ BILLION IN 1988-89, AN INCREASE OF £4¾ BILLION AND £5½ BILLION RESPECTIVELY OVER THE TOTALS PREVIOUSLY PUBLISHED.

FOR 1989-90 THE PLANNING TOTAL HAS BEEN SET AT £161½ BILLION.

AS USUAL, THESE TOTALS INCORPORATE ESTIMATES FOR THE PROCEEDS OF PRIVATISATION.

LAST YEAR I INCREASED THE ESTIMATE OF THESE PROCEEDS VERY SUBSTANTIALLY TO £4¾ BILLION IN EACH OF THE THREE SURVEY YEARS, A FIGURE WHICH I EXPECT TO BE DULY ACHIEVED THIS YEAR.

ALTHOUGH THE PRIVATISATION PROGRAMME IS NOW MOVING AHEAD MORE STRONGLY THAN EVER BEFORE, I HAVE DECIDED TO MAKE ONLY A MODEST FURTHER ADDITION TO THIS ESTIMATE, BRINGING IT TO £5 BILLION IN EACH OF THE NEXT THREE YEARS.

THE NEW PLANNING TOTALS ALSO CONTAIN SUBSTANTIAL

RESERVES, RISING FROM £3½ BILLION IN 1987-88 TO £7½ BILLION IN 1989-90.

THE PUBLIC EXPENDITURE INCREASES I HAVE ANNOUNCED ALLOW US TO MAKE REALISTIC PROVISION BOTH FOR LOCAL AUTHORITY CURRENT EXPENDITURE, OVER WHICH THE GOVERNMENT HAS NO DIRECT CONTROL, AND FOR DEMAND-LED PROGRAMMES SUCH AS SOCIAL SECURITY, WHILE STILL LEAVING SCOPE FOR INCREASED SPENDING ON SERVICES TO WHICH THE GOVERNMENT ATTACHES PARTICULAR PRIORITY.

BUT BEFORE REFERRING TO SOME OF THE MORE IMPORTANT CHANGES, LET ME MAKE ONE THING ABSOLUTELY CLEAR.

THERE CAN BE NO QUESTION OF ALLOWING THE PROJECTED INCREASES IN PUBLIC EXPENDITURE OVER THE NEXT TWO YEARS TO UNDERMINE THE PRUDENCE OF THE GOVERNMENT'S OVERALL FISCAL STANCE.

THE GOVERNMENT'S FISCAL STANCE HAS BEEN CLEARLY SET OUT IN THE MEDIUM-TERM FINANCIAL STRATEGY PUBLISHED AT THE TIME OF THIS YEAR'S BUDGET.

THERE WILL BE NO RELAXATION OF THAT STANCE.

WITHIN THE TOTALITY OF PUBLIC EXPENDITURE, THE LARGEST INCREASE IS FOR THE LOCAL AUTHORITIES, WHOSE CURRENT SPENDING NEXT YEAR IS NOW PUT AT £4 BILLION ABOVE THE PREVIOUS PROVISION.

THIS IN PART REFLECTS THE FACT THAT THE PREVIOUS PLANS SIMPLY CARRIED FORWARD THE SAME LEVEL OF CASH SPENDING AS IN 1986-87.

AT THE SAME TIME, WE ARE INCREASING NEXT YEAR'S AGGREGATE EXCHEQUER GRANT - THE CONTRIBUTION THAT TAXPAYERS MAKE TO LOCAL GOVERNMENT SPENDING - BY ALMOST 10 PER CENT OVER THIS YEAR'S SETTLEMENT; A RISE OF ALMOST £1½ BILLION.

THESE SUBSTANTIAL SUMS DEMONSTRATE IN PARTICULAR THE PRIORITY THE GOVERNMENT IS GIVING TO EDUCATION, WHICH, INCLUDING THE NEW PROPOSALS ON PAY AND CONDITIONS OF SERVICE FOR TEACHERS ANNOUNCED LAST WEEK, ACCOUNTS FOR ABOUT HALF THE INCREASE IN PROVISION.

THERE IS ALSO A SUBSTANTIAL INCREASE IN PROVISION FOR THE POLICE.

ON TOP OF THE INCREASED PROVISION FOR THE COST OF EDUCATION IN SCHOOLS, WHICH IS CONTAINED WITHIN LOCAL AUTHORITY CURRENT SPENDING, THERE WILL BE ADDITIONAL SPENDING ON THE UNIVERSITIES OF £60 MILLION IN 1987-88 AND £70 MILLION IN 1988-89.

HEAR HEAR

SPENDING ON THE HEALTH AND PERSONAL SOCIAL SERVICES WILL BE INCREASED BY MORE THAN £600 MILLION.

FOR THE NATIONAL HEALTH SERVICE ALONE, THE INCREASE IN ENGLAND AMOUNTS TO OVER £300 MILLION A YEAR.

COMBINED WITH THE ADDITIONAL RESOURCES BEING GENERATED BY GREATER EFFICIENCY, THIS WILL NOT ONLY ENABLE THE HEALTH SERVICE TO COPE WITH THE GROWING NUMBER OF ELDERLY PATIENTS BUT WILL ALSO ALLOW IT TO IMPROVE SERVICES.

GROSS PROVISION FOR HOUSING INVESTMENT IS BEING INCREASED BY £450 MILLION.

THIS WILL SUSTAIN THE RISING TREND OF SPENDING ON LOCAL AUTHORITY RENOVATION AND IMPROVEMENTS AND PROVIDE ADDITIONAL RESOURCES FOR THE HOUSING ASSOCIATIONS.

IN THE LIGHT OF THIS YEAR'S EXPERIENCE, £1 $\frac{3}{4}$ BILLION HAS BEEN ADDED TO NEXT YEAR'S PROVISION FOR SOCIAL SECURITY, MOST OF WHICH REPRESENTS A GREATER EXPECTED EXPENDITURE ON EXISTING MEANS-TESTED BENEFITS.

PROVISION FOR INVESTMENT IN ROADS IS BEING INCREASED BY £65 MILLION NEXT YEAR AND £75 MILLION THE YEAR AFTER, MOSTLY FOR LOCAL AUTHORITY ROADS.

FOR DEFENCE, THE PROVISION REMAINS AS PLANNED IN THE LAST WHITE PAPER AFTER ALLOWING FOR MINOR CHANGES, INCLUDING A REDUCTION IN THE ESTIMATED COST OF THE FALKLANDS DEPLOYMENT.

THE DEFENCE PROGRAMME WILL CONTINUE TO BENEFIT FROM THE SUBSTANTIAL REAL GROWTH IN PREVIOUS YEARS AND THE

WIDE-RANGING ACTION TO IMPROVE EFFICIENCY AND VALUE FOR MONEY.

TAKING ALL PROGRAMMES TOGETHER, THE ADDITIONS TO PLANNED CAPITAL EXPENDITURE AMOUNT TO GETTING ON FOR £1 BILLION IN 1987-88, OF WHICH ABOUT TWO-THIRDS IS LOCAL AUTHORITY SPENDING.

FURTHER DETAILS OF THESE AND OTHER CHANGES WILL BE CONTAINED IN THE PRINTED AUTUMN STATEMENT WHICH WILL BE PUBLISHED AS SOON AS THE HOUSE RETURNS NEXT WEEK.

IN ADDITION, FULL DETAILS, TOGETHER WITH INFORMATION ON RUNNING COSTS AND MANPOWER, WILL BE GIVEN IN THE PUBLIC EXPENDITURE WHITE PAPER EARLY IN THE NEW YEAR.

I NOW TURN TO NATIONAL INSURANCE CONTRIBUTIONS.

THE GOVERNMENT HAVE CONDUCTED THE USUAL AUTUMN REVIEW OF CONTRIBUTIONS IN THE LIGHT OF ADVICE FROM THE GOVERNMENT

ACTUARY ON THE PROSPECTIVE INCOME AND EXPENDITURE OF THE NATIONAL INSURANCE FUND, AND TAKING ACCOUNT OF THE BENEFIT UPGRADING WHICH MY RT HON FRIEND THE SECRETARY OF STATE FOR SOCIAL SERVICES ANNOUNCED ON 22 OCTOBER.

THE LOWER EARNINGS LIMIT WILL BE INCREASED NEXT APRIL TO £39 A WEEK, IN LINE WITH THE SINGLE PERSON'S PENSION, AND THE UPPER EARNINGS LIMIT WILL BE SIMILARLY RAISED TO £295 A WEEK.

THE LIMITS FOR THE REDUCED RATE BANDS WHICH I ANNOUNCED IN LAST YEAR'S BUDGET WILL ALSO BE INCREASED AGAIN IN APRIL, BUT BY PROPORTIONATELY LARGER AMOUNTS.

THE UPPER LIMIT FOR THE 5 PER CENT AND 7 PER CENT BANDS WILL BE RAISED TO £65 A WEEK AND £100 A WEEK RESPECTIVELY, AND THE UPPER LIMIT FOR THE 9 PER CENT RATE FOR EMPLOYERS WILL BE RAISED TO £150 A WEEK.

THE TAXPAYER'S CONTRIBUTION TO THE NATIONAL INSURANCE FUND - THE SO-CALLED TREASURY SUPPLEMENT - WILL BE REDUCED BY 2 PER CENT TO 7 PER CENT, BUT THIS WILL NOT REQUIRE ANY CHANGE IN CONTRIBUTION RATES.

THUS THE MAIN CLASS I CONTRIBUTION RATES WILL ONCE AGAIN REMAIN UNCHANGED AT 9 PER CENT FOR EMPLOYEES AND 10.45 PER CENT FOR EMPLOYERS.

FINALLY, I TURN TO THE INDUSTRY ACT FORECAST.

BOTH GROWTH AND INFLATION HAVE TURNED OUT TO BE SLIGHTLY LOWER THIS YEAR THAN I ENVISAGED AT THE TIME OF THE BUDGET.

GROWTH NOW LOOKS LIKE TURNING OUT AT $2\frac{1}{2}$ PER CENT, AGAINST A BUDGET FORECAST OF 3 PER CENT, AND INFLATION IN THE FOURTH QUARTER OF THIS YEAR IS LIKELY TO BE $3\frac{1}{4}$ PER CENT, AGAINST THE BUDGET FORECAST OF $3\frac{1}{2}$ PER CENT.

THE PRINCIPAL REASON FOR THIS SLOWER GROWTH HAS BEEN THE DISAPPOINTING PERFORMANCE OF EXPORTS, WHICH WERE HARD HIT BY THE CUTBACK IN SPENDING BY OPEC AND OTHER PRIMARY PRODUCERS AFFECTED BY THE SHARP FALL IN COMMODITY PRICES IN GENERAL AND THE OIL PRICE IN PARTICULAR.

COMBINED WITH A HALVING IN THE VALUE OF OUR OWN OIL EXPORTS, THIS HAS MEANT A SIGNIFICANT DETERIORATION IN THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS, FROM A SURPLUS OF SOME £3½ BILLION IN 1985 - AND A CUMULATIVE SURPLUS OF £21 BILLION OVER THE SIX YEARS FROM 1980 TO 1985 INCLUSIVE - TO A FORECAST OF BROAD BALANCE FOR 1986.

LOOKING AHEAD TO 1987 THE PROSPECTS ARE GENERALLY ENCOURAGING.

WHILE THE NECESSARY ADJUSTMENT OF THE EXCHANGE RATE TO THE OIL PRICE COLLAPSE HAS NOW TAKEN PLACE, IT WILL INEVITABLY TAKE TIME BEFORE THE FULL BENEFITS COME

THROUGH IN HIGHER NON-OIL EXPORTS AND LOWER IMPORT GROWTH.

THIS MEANS WE CAN EXPECT THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS TO GO INTO DEFICIT NEXT YEAR, FOR THE FIRST TIME SINCE 1979, TO THE TUNE OF SOME £1½ BILLION.

EVEN SO, NON-OIL EXPORTS ARE FORECAST TO RISE NEXT YEAR BY 5½ PER CENT, COMPARED WITH AN INCREASE OF ONLY 1 PER CENT THIS YEAR, WITH MANUFACTURING OUTPUT, IN CONSEQUENCE, UP BY 4 PER CENT.

AND WITH DOMESTIC DEMAND CONTINUING TO EXPAND AT THE SAME RATE AS THIS YEAR, THE ECONOMY OVERALL IS LIKELY TO GROW BY A FURTHER 3 PER CENT NEXT YEAR - THE SIXTH SUCCESSIVE YEAR OF STEADY GROWTH AT AN AVERAGE ANNUAL RATE OF ALMOST 3 PER CENT.

Bro/Cher

RECORDED INFLATION IS LIKELY TO EDGE UP A LITTLE, TO 3¼ PER CENT IN THE FOURTH QUARTER OF 1987.

THIS IS ALMOST ENTIRELY DUE TO THE EFFECT ON THE RPI OF THE TIMING OF MORTGAGE RATE CHANGES.

THE GOVERNMENT'S COMMITMENT TO A MONETARY POLICY THAT WILL SQUEEZE OUT INFLATION REMAINS UNABATED.

MEANWHILE THE LIKELIHOOD OF FASTER GROWTH NEXT YEAR, COMING AT A TIME WHEN UNEMPLOYMENT ALREADY APPEARS TO HAVE STOPPED RISING, SUGGESTS THAT THE PROSPECTS FOR SOME FALL IN UNEMPLOYMENT ARE NOW MORE PROMISING.

BUT THIS PROMISE COULD STILL BE FRUSTRATED BY EXCESSIVE PAY SETTLEMENTS.

MR SPEAKER, THE STRATEGY WE HAVE FOLLOWED SINCE 1979 HAS BROUGHT INFLATION DOWN TO THE LOWEST LEVEL FOR TWO DECADES, COMBINED WITH SUSTAINED GROWTH AND STEADILY RISING LIVING STANDARDS.

THIS IS A COMBINATION THAT HAS ELUDED SUCCESSIVE GOVERNMENTS FOR A GENERATION.

WE HAVE BROUGHT IT ABOUT BY THE DETERMINED PURSUIT OF FREE MARKETS AND SOUND MONEY.

AND THAT IS WHAT WE WILL STICK TO.

page



C/

John Gieve rang about paragraph 11. You suggest saying "modest" growth in real terms. John Anson wonders if this is rather under-selling the point and would prefer to say "some" rather than "modest". OK?

no: delete "some".
(as well as "modest")

CR 27/10

phoned through



pyg

Ch

Murdo adamant
that week of 14th
impossible. 10th seems
(see details below)
OK (we can move
tax meeting & There is
looking anyone @ Tuesday 8th
for 5 Wt for Dominic). I've
personally told Murdo.

Cannd hand with
Charles Moore?

Yes poss. *Explant.*

AA



Alex

8 Dec lunch Ian Atken
& Peter Riddell
5.30pm Lord Unson

(Dinner for Dominic + wife)

9 Dec 9.00am Prayers,
lunch Hussey & Barnett
BBC.

4.00pm Scotch Whiskey Delegation
(TCSC Hearing)

5.30pm PM Bilateral.

6.00pm Backbench MPs.

6-7.30 East Mids Media
Reception.

7.30pm Dinner Sir Francis
Tombs + others (Rauls Report)

10 Dec 9.30am MSC 128
Cabinet.

lunch Spectator.

3.00pm Benefits in kind

(Dinner for Dominic + wife)

*PS - I'm not sure
knows what date
ASAP.*



FROM: A C S ALLAN

DATE: 20 NOVEMBER 1987

CHANCELLOR

*I can do 10 December
if follow wk, and greater
paper 15 December.
But 10/12 OK.
M.*

DEBATE ON THE AUTUMN STATEMENT

I have had a word with Murdo. I told him that you would be ready to do a combined Autumn Statement/Public Expenditure White Paper debate after Christmas, but that if that was not possible you would want the Autumn Statement debate before Christmas.

2. He thinks the Opposition will not willingly give up a day on the economy in Government time, and so would reject a combined debate.

3. We then discussed possible dates before Christmas. He thought it would be impossible to have the debate in the week of 14 December, and offered 8, 9 or 10 December instead.

4. A debate in the week beginning 7 December would completely scupper Terence Higgins' tentative plans for a TCSC report (see separate now below). That might not be such a bad thing! Are you interested?

5. To keep our options open, I pressed him on the business he has planned for the week beginning 14 December. It turns out that this is 2 days on the Local Government Bill (report and third reading) and 2 days for the second reading of the Rates Bill (ie poll tax).

6. I spoke to Robin Young in DoE, who was predictably not at all keen on four solid DoE days just before Christmas! He did not like

*Situp on 20th
Jag ASAP, PSC*



the business managers' plot to concede 2 days for the second reading of the Rates Bill; and would be perfectly ready to squash the report and third reading of the Local Government Bill into one day. But DoE do need both bits through before Christmas.

7. If you want an AS debate in that week, you would probably need to get together with Mr Ridley and press the business managers to have only 3 days of local government business, leaving one day for you.

A C S ALLAN

FROM: MISS C EVANS

DATE: 19 November 1987

MR A C S ALLAN

12/2

cc: PS/Chief Secretary
 PS/Economic Secretary
 Sir Peter Middleton
 Sir Geoffrey Littler
 Sir Terence Burns
 Mr Anson
 Mr Cassell
 Mr Monck
 Mr Scholar
 Mr Sedgwick *Mr Culpin*
 Mr Turnbull
 Mr Odling-Smee
 Mr Peretz
 Mr R I G Allen
 Miss O'Mara
 Mrs Thorpe
 Mr Dyer

OK -

TCSC : AUTUMN STATEMENT HEARINGS

It now looks as though the debate on the composition of Select Committees will not take place until next week. This means that the TCSC would hold its first meeting in the week beginning 30 November. On this basis the Clerk proposes that the officials' hearing should be on Monday 7 December and the Chancellor's on Wednesday 9 December, both at 4.45 pm.

2. May we plan, provisionally, on this basis? (It would mean moving the Chancellor's meeting with the Scotch Whisky Association (Budget representation) planned for 4.30 on 9 December, but I suggest we leave this until the TCSC dates firm up).

Carys Evans

MISS C EVANS