

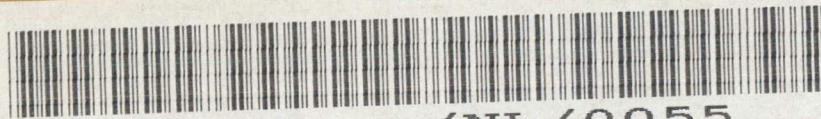
PO - CH / NL / 0055

PART A



**SECRET**

(Circulate under cover and  
notify REGISTRY of movement)



PO -CH /NL/0055



PART A

1986 BUDGET AUTUMN  
STATEMENT

DDs 25 years N.A. 3/3 2-2-95.

PO -CH /NL/0055

PART A

PART A

STARTS:- 23-07-86

ENDS:- 28-10-86

CLOSED

CLOSED ON:-

PART

**B**



Mrs. Hamase  
- Personal F

FROM: M C SCHOLAR  
DATE: 23 JULY 1986

MR TURNBULL

*Alex.*

cc Mr H P Evans  
Mr Odling-Smee  
Mr Watson  
Mr B O Dyer  
Mr Pratt o/r

**AUTUMN STATEMENT: FORMAT AND TIMING**

*b/f  
when final version appears.*

... I would be grateful for comments on the attached draft, which is due to be discussed at PCC on Tuesday. May I have comments by Thursday evening, the 24th?

*MCS*

M C SCHOLAR



DRAFT

FROM: M C SCHOLAR  
DATE: JULY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr F E R Butler  
Mr Anson  
Mr H P Evans  
Mr Turnbull  
Mr Watson  
Mr Culpin  
Mr B O Dyer  
Mr Tyrie  
Mr Pratt o/r

**1986 AUTUMN STATEMENT: FORMAT AND TIMING**

At your meeting with us on Wednesday we promised a separate submission on the content and form of the oral and published Autumn Statement.

**Oral Statement**

2. The oral statement, which you have agreed should be made on the day of the final public expenditure Survey Cabinet, will probably need to be rather longer this year than in the recent past. It will need to set out the expenditure decisions as fully as is possible at the time; and, to explain and justify the new totals, there will need to be some appraisal, in the context of the new forecast, of the economic and financial prospects, designed to reassure the markets. There will, as usual, need to be an account of the forecast; and there may also, as usual, be an announcement of the national insurance decisions.

3. Because it would be impossible to produce a published Autumn Statement in its usual format on the same day that the Cabinet's decisions on public expenditure are taken a number of alternative courses of action need to be considered.



#### Published Autumn Statement - publication on same day

4. It would be possible to publish on the same day as the Cabinet's decisions were made a document which looked very much like the document published in recent years - complete with Industry Act forecast, decisions on the national insurance contributions for the following year, and the ready reckoner of the cost of tax changes - but without the public expenditure section, which would have to follow later.

5. Since the public expenditure decisions are the heart of the document it would look odd to omit them. Although we would explain the reasons, it would not be understood by some why we could not publish, as usual, the public expenditure tables and text on the day the oral statement was made. But an attenuated Autumn Statement of this kind, published on the day of the final Cabinet, might look - reassuringly - like business as usual.

#### Published Autumn Statement - but publication later

6. The next option would be an oral statement on Cabinet day, to be supplemented later by a printed Autumn Statement in the usual format.

7. This would provide the government with a further occasion fully to explain the expenditure decisions, and how they fitted in with the forecast and the government's economic policy. But the timing of such a publication presents difficulties. It could not be published in its usual form, as a House of Commons paper, between Prorogation and the opening of Parliament, because there is no House of Commons before which to lay it or to Order it. For the same reason it could not be a Command paper during this period. So we would need either to delay its publication until Parliament was opened on 12 November, or reach some agreement with the Opposition, Mr Higgins, the House authorities et al that we would publish it meanwhile, perhaps in typescript, as a Treasury paper, then lay it in printed form before the House after Parliament was opened. On the whole, the former option - if carefully presented to the House - seems the better of the two.



## Abolish the Autumn Statement

8. The major awkwardness about these arrangements is not Parliamentary, but that the full justification and explanation of the government's policies which the published Autumn Statement can provide must necessarily this year come not on the day when it is required, but some days after the main decisions are announced. In these circumstances, it is worth considering whether any advantage is served by publishing this document this year; or whether we should drop it, presumably for good.

9. The case in 1982 for introducing the Autumn Statement in its present form was a balanced one. With the introduction of the MTFs and its annual review at Budget time there was and is no compelling reason for making a mid-year economic statement. Indeed, in so far as such a statement is thought of by some observers as a mini-Budget, or as a green Budget - as it inevitably is - there is a good reason for not making such a statement, which can stir up unwarranted speculation about the fiscal prospects for next year, or about the government's intention to hold to the financial strategy reaffirmed at the time of the Budget.

10. A decision to drop the Autumn Statement need imply no reduction whatever in the information supplied by the government to Parliament. The Public Expenditure Survey decisions would be announced in full; the Industry Act forecast would be published - perhaps as before 1982 in the EPR or by Press Notice; the national insurance decisions could be announced in whatever way seemed best; and the tax ready-reckoner could either be dropped or published at any time as a written answer.

11. It is ironical that this year there is a stronger case than usual for making an Autumn Statement on the economy: because we shall be announcing higher expenditure totals than in the MTFs there will be a need to say something, to reassure the markets, about the economic and fiscal background against which these decisions have been reached. We will submit advice, after the summer break and in the light of market developments, on how these decisions might in substance best be presented. But, whatever the presentation, your



statement on the economy - whether or not it is called an Autumn Statement - will need to depend on published material in a different way than in the past.

12. Dropping the Autumn Statement would undoubtedly lead to a row with the TCSC and the Opposition: the former would lose a document (for which the Treasury has been much praised) on which they can examine Ministers and officials; the latter would lose an occasion for a debate on the economy (and one which falls uncomfortably close to the economic day in the debate on the Address). But it is possible to exaggerate in advance (as some did last year when discontinuing publication of the fiscal adjustment was mooted) the scale of the row; there would, presumably, be some political support, as there was last year, for abolition; and a row about documentation might divert some attention from substantial issues.

### CONCLUSION

13. It would be possible, but slightly awkward, to publish an attenuated Autumn Statement on the day the oral statement was made. The details of the expenditure decisions could be published a few days later, or when Parliament reopened.

14. It would be more consistent with past practice to produce the published Statement some time after the oral statement - probably either a week or so later, after Parliament reopened, or, if the oral statement were on Thursday 13 November, or Tuesday 18 November (but if there were anything in the published Statement which upset the markets, that would be dangerously close to BGC Impact Day). But the document would be otiose, since it would be necessary to include all its important contents in the oral statement.

15. A more radical solution would be to take the opportunity offered by this year's extraordinary circumstances to drop the Autumn Statement, which was introduced mainly as a sop to the Green Budgeteers at a time when their star was in the ascendant, but now serves little useful purpose. This year the substitute would be - as it must in any event be - a more than usually carefully presented oral statement. In future years the substitute would be an oral statement



on the Survey decisions, together with publication elsewhere - at a time of our own choosing - of the detailed public expenditure numbers, the Industry Act forecast and the rest.

16. You will, no doubt, wish to discuss. [The majority opinion amongst officials is in favour of dropping the Autumn Statement.]

M C SCHOLAR



SECRET

COPY NO | OF 28 COPIES

FROM: M C SCHOLAR  
 DATE: 31 JULY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 PCC  
 Mr H P Evans  
 Mr Sedgwick  
 Mr Turnbull  
 Mr Watson  
 Mr B O Dyer  
 Mr Cropper  
 Mr Tyrie  
 Mr Pratt

**AUTUMN STATEMENT: FORMAT AND TIMING**

At your meeting with us last week we promised a separate submission on the content and form of the oral and published Autumn Statement.

**Oral Statement**

2. The oral statement, which you have agreed should be made on the day of the final public expenditure Survey Cabinet, may need to be rather longer this year than in the recent past. It will need to set out the expenditure decisions as fully as is possible at the time (ie probably totals and reserves and changes in main programmes for the 3 Survey years, together with this year's outturn for the total; all figures heavily rounded); and, to explain and justify the new totals, there will need to be some appraisal of the financial prospects, designed to reassure the markets. There will, as usual, need to be an account of the forecast; and there may also, as usual, be an announcement of the national insurance contribution decisions (unless it were decided to announce them earlier, with the uprating statement, soon after publication of the September RPI in mid-October; a separate submission from ST will be coming forward on this).

*you need!*



## The Printed Statement

3. Because it would be impossible to produce a published Autumn Statement in its usual format on the same day that the Cabinet's decisions on public expenditure are taken, a number of alternative courses of action need to be considered.

### (i) Publication on same day

4. It might be possible to publish on the same day as the Cabinet's decisions were made a document which looked very much like the document published in recent years - complete with Industry Act forecast, decisions on the national insurance contributions for the following year, and the ready reckoner of the cost of tax changes - but without the public expenditure section, which would have to follow later.

5. Because it is conceivable that the public expenditure decisions taken at Cabinet might necessitate some changes to the forecast, this course of action would require us to predict in advance the Cabinet's conclusion. That might look slightly odd publicly, if it became known that, following the Cabinet's discussion, there had been some last-minute changes to the public expenditure plans yet the forecast was unaltered.

6. Furthermore, since the public expenditure decisions are the heart of the document it would look odd to omit them: although we would explain the reasons, it would not be understood by some why we could not publish, as usual, the public expenditure tables and text on the day the oral statement was made. Nevertheless, if we could pull it off - as we think we could - even an attenuated Autumn Statement of this kind might be worth producing.

### (ii) Publication later

7. It would be possible to make the oral statement on Cabinet day, but publish the full Autumn Statement, including the forecast, the following week. The earliness of the oral statement would thus be the only change from present practice.



8. We (in particular, Sir Terence Burns and the forecasters) do not think this would be at all satisfactory. Without the backing of the detailed forecast, the judgements in the summary of the forecast in the oral statement would be unsupported, and this could affect the reception of the package as a whole. Inevitably, the oral statement could only give a few figures from the forecast: the material that would be left out and published later (for example, the details of any revision to the current year's public sector accounts) would be regarded by some as important and relevant to the statement. And in the interval between the oral statement and publication of the main forecast doubts about individual elements in the summary forecast might build up in a way which publication of the full forecast could not be expected to assuage.

9. The solution to this might be to publish the forecast, in full, as a Press Notice/EPR Supplement, on the day of the oral statement, on the reasonable (though not cast iron) belief that any changes made by Cabinet would not have much, if any, effect on the rounded numbers in the forecast. The material in the Press Notice/EPR could then be repeated in the Autumn Statement published, in the same format as in previous years, the following week. This would mean that we were maintaining the main Autumn Statement publication in its now customary format - for which we have been given, and taken, credit in recent years. If - as is possible - there were irresistible pressure for some further oral statement on the day the published Autumn Statement came out this could perhaps be a statement by the Chief Secretary on the detailed expenditure figures - which would be the only new information in the publication (apart from the tax ready-reckoner).

10. This is the sequence preferred by PCC, and perhaps the course of action which most looks like business as usual.

#### Getting away from an Autumn Statement on the economy

11. There is another alternative. It would be possible to publish the forecast with the oral statement on Cabinet day and deal with the national insurance decisions and the tax ready-reckoner separately; and confine the formal publication, in the week after Cabinet, to the



tails of the expenditure programmes, perhaps in the form of a slim booklet called The Government's Expenditure Plans in Outline and containing the information now in Chapter 2 of the Autumn Statement together with, perhaps, the text in full of your oral statement. We could try through the style of the document to make it look like a precursor of the Public Expenditure White Paper rather than a truncated Autumn Statement.

12. This would begin to move us away from an annual autumn statement on the economy - an event which it is not always easy to present as a positive occasion for the government. A mid-year review of the economy is also arguably an unnecessary event, given the existence of the MTFs and its annual review at Budget time, and one which plays into the hands of those who persist in thinking of the Autumn Statement as a green Budget, or as a mini-Budget.

13. Moving away from the Autumn Statement in its present form would probably lead to a row with the TCSC and the Opposition. But it is possible to exaggerate in advance (as some did last year when discontinuing publication of the fiscal adjustment was mooted) the scale of the row. We would be able to demonstrate that there was no reduction whatever in the information we were providing Parliament. There would, presumably, be some political support from the government side, as there was last year with the fiscal adjustment, for abolition. A row about documentation might divert some attention from the substantial issues. And if we were able, in consequence, to secure the substitution of a debate on the government's expenditure plans in outline for the annual debate on the autumn statement on the economy that would be a considerable benefit - particularly in view of the awkward closeness of the occasion to the economic day of the Queen's Speech debates.

#### Timing

14. The final Survey Cabinet is expected to be on either 6th or 13th November. Prorogation is currently scheduled for Tuesday or Wednesday, 4th or 5th November, with Opening the following week, on 12th November, and the Economic day of the Queen's Speech debates on the 19th. This would be awkward, since no oral statement would then



be possible on Thursday 6th November. The effective choices therefore are:

- (i) To delay Prorogation until 6th or 7th November, to allow a Statement on Cabinet day; or
- (ii) Final Cabinet on 13th November, when the new Session will have started.

15. The former is currently under consideration by the Business managers. It is the safer option in relation to the BGC flotation: but it involves leaving a week both between the oral statement (on the 6th) and published document (on the 13th) and again between publication and the Economic debate (on the 19th). The second option brings the printed Statement (on 18th November) rather close to British Gas Impact Day (on 21st November) but this should be made less awkward by the fact that the main announcements will have been made the previous week. Its main advantage is the brisk sequence, as follows:

- (i) Thursday November 13th
  - Final Cabinet
  - Oral Statement      Current year outturn
  - Planning totals. Main programme changes (rounded)
  - NIC changes
  - Forecast summary
  - Press Notice on Forecast
  - GAD Report
- (ii) Tuesday November 18th
  - [- if necessary - Chief Secretary's statement on details of expenditure plans]
  - Published document
- (iii) Wednesday November 19th
  - Economic Debate

### Conclusion

16. We recommend that the oral statement should include both the rounded public expenditure figures, and material designed to reassure the markets about the new totals, including the main points from the forecast. It may also need to include the NIC decisions if they have not already been announced.



7. Since the forecast must be published in full on the day of the Autumn Statement, and the details of public expenditure cannot be then announced, there is bound to be a two stage publication. We recommend publishing the forecast by Press Notice/EPR Supplement on the day of the oral statement, followed by a full Autumn Statement in customary format in the following week (paragraphs 7-10 above). It is for consideration whether, as an alternative (paragraphs 4-6 above), we should publish an attenuated Autumn Statement on oral statement day, with the expenditure figures following later; or whether (paragraphs 11-13) we should publish only the forecast on oral statement day and call the subsequent publication not The Autumn Statement but The Government's expenditure plans in outline, as part of a move away from our present practice of an annual mid-year statement on the economy.

18. On timing, the final public expenditure Cabinet and the oral statement could be on 6th November or 13th November, with the former usefully distant from BGC Impact Day and the latter providing a brisker sequence of Statement, publication and debate. On balance, we suggest that we should aim for the former (preferred, too, by the No 10 Private Office, as allowing the Prime Minister to make her Guildhall and Opening of Parliament speeches on the basis of the known outcome of the Survey), with the option of falling back to the latter.

Mus

M C SCHOLAR







SECRET

COPY NO 33 OF 33 COPIES



FROM: A C S ALLAN  
 DATE: 4 AUGUST 1986

BF  
 26/8  
 1/9

MR SCHOLAR

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 PCC  
 Mr H P Evans  
 Mr Sedgwick  
 Mr Turnbull  
 Mr Watson  
 Mr Dyer  
 Mr Pratt  
 Mr Cropper  
 Mr Tyrie

**AUTUMN STATEMENT: FORMAT AND TIMING**

The Chancellor was grateful for your minute of 31 July. He is attracted by the option of getting away from an Autumn Statement on the economy, but on balance would not wish to pursue it this year, when we shall have other difficulties to overcome - including considerable problems with the substance; he is not convinced by the argument that a row about documentation might divert some attention from the substantive issues. So he agrees with the sequence preferred by PCC: a full oral statement including both rounded public expenditure figures and the main points from the forecast; publication of the forecast on the day of the oral statement; and publication of a full Autumn Statement in the customary format in the following week.

2. The new Statement will need to be both different from (and longer than) last year's: he would be grateful if you could draft a cock-shy of what last year's Statement would have looked like given this year's proposed treatment.

3. On the timing, he would be prepared to go firmly for 6th November (subject of course to Cabinet on the day); he has already discussed this with the Chief Whip.

*ACSA*

A C S ALLAN





*RF 8/10*

10 DOWNING STREET

*From the Private Secretary*

1 September 1986

*Dear Alex,*

**TIMING OF PUBLIC EXPENDITURE CABINET AND AUTUMN STATEMENT**

The Chancellor this afternoon discussed with the Prime Minister the timing of the Public Expenditure Cabinet and the oral Autumn Statement. The Chancellor's preference was to hold the Public Expenditure Cabinet on Thursday 6 November and to make a statement to the House that afternoon, with the published Autumn Statement following in the next week. This would among other things help to distance publication from the impact day for the flotation of BGC. The Prime Minister agreed.

You undertook to ensure that the Lord President, the Lord Privy Seal and the Chief Whip are content with this timetable.

<b>CH/EXCHEQUER</b>	
REC.	2-SEP1986
ACTION	MR SCHOLAR
COPIES TO	CST FST EST MST
	SIR P MIDDLETON
	SIR T BURNS
	MR F E R BUTLER
	MR ANSON
	MR TURNBULL
MR CROPPER	
MR TYRRE	

*J/2/a* *Jan,*  
*David.*

(DAVID NORGROVE)

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



RESTRICTED

PPS / Chancellor  
(Mr Allan)

From: SIR PETER MIDDLETON

Date: 2 September 1986

CIRCULATION: AS ATTACHED LIST (ANNEXES B & C)

**AUTUMN STATEMENT SECURITY**

I am concerned to ensure that our internal arrangements for handling the Survey arithmetic are once again as secure as possible.

2. I attach a code of practice on the handling of the GEPI scorecard and related material, identical to the arrangements used successfully last year. EOG (Mr Rees) may organise spot checks to ensure the system is working properly and I would ask you all to help him with his duties.

P E MIDDLETON

NOTE: Spoke to PEM's Office  
to arrange that Tony Lyons  
and Shirley Moody be added  
to the AS list.

Nigel

Nigel  
3/9/86.

we discussed

Alan



RESTRICTED

AUTUMN STATEMENT SECURITY: CODE OF PRACTICE

The following arrangements, similar to those used last year, formalise the handling of material about the Chief Secretary's overall negotiating position during the bilaterals and the Star Chamber discussions.

Aim

2. The aim is to make our arrangements for handling this material as secure as possible, by ensuring the information is restricted to people with a need to know.

Coverage

3. The arrangements cover copies of the GEP1 scorecard showing the Chief Secretary's overall negotiating position and papers discussing the scorecard and the Chief Secretary's overall tactics. The originators of the material (largely GEP1) are responsible for deciding which papers come into these categories.

## ORIGINATORS

## Identification

4. All papers covered by the arrangements should be classified **SECRET AND PERSONAL** and include the word **SCORECARD** in the top right hand corner of the first page above the copy number.

5. Originators should include copy numbers on all copies of **SCORECARD** material and keep a note of who those copies are sent to. The note, together with a brief description of the material copied, should be sent to Miss McRobbie (GEP Room 97/3) within 24 hours, so she can complete a log showing who has which copy.

6. Scorecard material should be circulated on a need to know basis. In no



circumstances should a copy be sent (or shown) to people not on the Scorecard circulation list (copy attached). Suggestions for adding people to the list should be sent to Sir Peter Middleton's Private Secretary (Mr Saunders), giving at least one day's notice.

#### RECIPIENTS

7. Recipients are asked not to photocopy any scorecard material and to show it only, on a need to know basis, to others on the Scorecard circulation list. Scorecard papers should not be left unattended by the person responsible for their custody - he/she should lock them away whenever he/she leaves the room. In some cases minutes covered by the scorecard rules will include less sensitive information eg on departmental running costs. This less sensitive material is not covered by this code of practice and may be shown to others.

8. The normal rules on taking classified documents home applies (paragraph 70 of the Treasury security instructions). If anyone needs to take **SCORECARD** material home on a regular basis, authority must be obtained from the Permanent Secretary. If an occasional need rises, authority must be obtained from an Assistant Secretary or above.

9. Recipients may keep copies of scorecard material as long as they wish. When they have no further use for it the material should be sent to Miss McRobbie (GEP1, Room 97/3) so the log can be amended before the material is destroyed.

#### Cupboards and spot checks

10. EOG will check that those on the scorecard list can keep the material in secure cupboards ensuring privacy from those not on the list. EOG (Mr Rees) may organise spot checks of scorecard material to ensure the system is working.

#### The Press

11. No one should brief the press on matters related to the bilaterals without first referring to Mr Culpin.



## NEED TO KNOW GEP1 SCORECARD: BILATERALS AND STAR CHAMBER STAGES

C ● ellor

Principal Private Secretary (Mr A C S Allan)

Private Secretary (Mr A Kuczys)

Assistant Private Secretary (Mrs C Ryding)

Clerks (Mr N G Fray), (Mr I C Sears), (Mrs M Henson)

Chief Secretary

Private Secretary (Miss J K Rutter)

Assistant Private Secretary (Mr M Felstead)

Clerks (Mr S I M Kosky), (Mr A A Dight), (Mr S F P Cowx)

Personal Secretary (Miss P Stanton)

Sir P Middleton

Private Secretary (Mr R B Saunders)

Personal Secretary (Miss J C Todd)

Mr F E R Butler

Senior Personal Secretary (Mrs F Verlander)

Mr J Anson

Senior Personal Secretary (Mrs E Davies)

Mr N Monck

Senior Personal Secretary (Mrs P M Spragg)

GEP

Mr A Turnbull

Senior Personal Secretary (Mrs V Brown)

Mr P R C Gray

Personal Secretary (Mrs I Perry)

Mr M L Williams

Personal Secretary (Mrs A Honarfar)

Mrs R J Butler

Personal Secretary (Mrs S Church)

Mrs R M Dunn

Ms M Wallace

GEP1 Clerk (Miss R McRobbie)

GEP1 divisional typist (Mrs G McKinnon)



FP/EB

Mr M C Scholar

I ● Crane

Mr R Pratt

Mr D N Walters

Clerk (Mr P J Edwards)

Miss O'Mara

Mrs G B Henry

Mr C R Pickering

PSF/GEP3

Mr C J Mowl

Personal Secretary (Miss S J Nash)

Mr A W Ritchie

Mr J K Darlington

Mr M Stock

Miss L Adamson

GEP3 Clerk (Mr N Buckley)

EOG

Mr M Rees

Special Advisers

Mr A Tyrrie

Personal Secretary (Ms M May)

IDT

Mr R P Culpin

Personal Secretary (Mrs P A Spencer)



NEED TO KNOW GEPI SCORECARD: AUTUMN STATEMENT BRIEFING STAGE ONLY

EB

Mr Hacche

Mr Kerley

Mr S R Kemp

Mr Dawson

WPU

Miss S Robinson

Miss Bullock

Miss R Patel

Mrs Shah

Miss Madhani



**SECRET**

From: R PRATT

Date: 3 September 1986

- 1. MR SCHOLAR
- 2. PRINCIPAL PRIVATE SECRETARY

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir Peter Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Turnbull
- Mr Cropper
- Mr Tyrie

*Agreed with me  
MUS 3/9*

*Ch  
OK for me to write as  
drafted?*

*AM  
I have written*

*M.D. Moore*

**TIMING OF PUBLIC EXPENDITURE CABINET AND AUTUMN STATEMENT**

David Norgrove has written to you noting that the Prime Minister has agreed to the Chancellor's preferred sequence for the public expenditure Cabinet and the Autumn Statement - namely final decisions at Cabinet on Thursday 6th November; oral statement the same afternoon and publication of the printed statement the following Thursday 13th November. He asks you to ensure that the Lord President, the Lord Privy Seal and the Chief Whip are content with this timetable.

2. I attach a draft letter for you to send to their Private Secretaries.

*Richard Pratt*  
RICHARD PRATT



# TIMING OF AUTUMN STATEMENTS

The Chancellor has asked me to write to you about the timing of this year's Autumn Statement. Clearly, the date <sup>depend</sup> <sup>primarily</sup> on the date on which Cabinet takes its final ~~decision~~ <sup>final</sup> public expenditure decisions. This could in theory be either Thursday 6<sup>th</sup> November or Thursday 13<sup>th</sup> November; but the latter would imply an Autumn Statement <sup>uncomfortably</sup> <sup>uncomfortably</sup> close to the planned BSC Impact Day ~~on 21<sup>st</sup> November~~ (the date of which has not yet been announced, but which a fact is already <sup>firmly</sup> fixed for 21<sup>st</sup> November).

If, then, the final public expenditure decision is to be on Thursday 6<sup>th</sup> November (the equivalent date to last year's), the usual point to an Autumn Statement is on the following Tuesday, 11<sup>th</sup> November. However, that will not be possible because the House will not be sitting then. In the special circumstances created by the late than usual opening of Parliament the Chancellor will therefore wish to depart from the usual practice of ~~making his~~ <sup>making his</sup> oral statement on a day on which the Autumn Statement is published, and not make the oral statement on Thursday 6<sup>th</sup> November ~~instead~~ <sup>and</sup> publish the ~~final~~ <sup>draft</sup> Autumn Statement document on the following Thursday, 13<sup>th</sup> November. I understand that the Chancellor spoke to the Chief Whip



keep about this at the end of July, and  
established the the house. ~~and still that the still~~  
had still be sitting on 6<sup>th</sup> November.

Then an p<sup>m</sup> p 2 of ~~Pratt~~ Pratt  
(as a result)



SECRET

*Plenetyro*~~DRAFT~~ LETTER FROM PRINCIPAL PRIVATE SECRETARY

TO: PRIVATE SECRETARY TO THE LORD PRESIDENT

cc Private Secretary of the Prime Minister  
 Private Secretary to the Lord Privy Seal  
 Private Secretary to the Chief Whip

*I have  
Khanth*

## TIMING OF PUBLIC EXPENDITURE CABINET AND AUTUMN STATEMENT

The Chancellor has asked me to write to you about <sup>the timing</sup> ~~possible~~ dates for the publication of the Autumn Statement this year. The Chancellor believes that ~~it will be helpful, for market reasons, if~~ the Autumn Statement <sup>should be</sup> ~~is~~ published at least a week before BGC Impact Day - Friday 21st November (a date which has not yet been announced). In practice, since the new session of Parliament will begin on Wednesday 12th November, the only available day <sup>in that week</sup> for <sup>the</sup> publication <sup>of the Autumn Statement</sup> would be Thursday 13th November.

In order to <sup>publish the Autumn Statement</sup> ~~achieve publication~~ on that date, it <sup>would</sup> ~~will probably~~ be necessary for Cabinet to take its final decisions on public expenditure on Thursday 6th November. <sup>Given that</sup> ~~this would~~ imply a longer delay than usual between the Cabinet's decisions and <sup>the</sup> publication of the Autumn Statement, <sup>and</sup> the Chancellor <sup>would therefore wish</sup> ~~is minded~~ to make his oral statement on the afternoon following that final Cabinet. This <sup>assumes</sup> ~~of course implies~~ that the House will still be sitting on Thursday 6th November; <sup>I understand that</sup>

<sup>the Chancellor spoke to the Chief Whip about this, and that the Chief Whip indicated that that could be arranged.</sup>



The Prime Minister has agreed that the aim should be to <sup>follow</sup> ~~achieve~~ <sup>that</sup> ~~this~~ sequence; ~~ie~~ final public expenditure decisions on Thursday 6th November; an oral statement the same afternoon; and publication of the printed Autumn Statement on Thursday 13th November. I should be grateful if you, Stephen Wood and Murdo Maclean (to whom I am copying this letter) would let me know if the Lord President, the Lord Privy Seal and the Chief Whip are content.

I am also copying this letter to David Norgrove.

A C S ALLAN



RESTRICTED

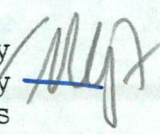
From: K F MURPHY

Date: 5 September 1986

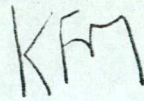


MRS R DUNN

cc PPS  
Mr Gray  
Mr Fray  
Mr Rees  
Miss McRobbie  
Mr Lyons  
Ms Moody

AUTUMN STATEMENT SECURITY

Sir Peter Middleton has approved the addition to the list of those entitled to see Scorecard material of Mr Lyons and Ms Moody both in the Chancellor's Office. I attach for them a copy of the code of practice and the list of those entitled to see the material.



**K F MURPHY**  
Private Secretary





PS/FST  
 PS/EST  
 PS/MST  
 Sir P Middleton  
 Sir T Burns  
 Mr F E R Butler  
 Mr Anson  
 Mr Turnbull  
 Mr Moore  
 Mr Pratt  
 Mr Scholar  
 Mr Cropper  
 Mr Tyrie

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

8 September 1986

Joan MacNaughton  
 Private Secretary to the  
 Lord President of the Council

*pwp*

*Dear Joan,*

The Chancellor has asked me to write to you about the timing of this year's Autumn Statement. Clearly, this depends primarily on the date on which Cabinet takes its final public expenditure decisions. This could in theory be either Thursday 6 November or Thursday 13 November; but the latter would imply an Autumn Statement uncomfortably close to the planned BGC Impact Day (the date of which has not yet been announced, but which in fact is already firmly fixed for 21 November).

If, then, the final Public Expenditure Cabinet is to be on Thursday 6 November (the equivalent date to last year's), this would normally point to an Autumn Statement on the following Tuesday, 11 November. However, that will not be possible since the House will not be sitting then. In the special circumstances created by the later than usual opening of Parliament, the Chancellor would therefore wish to depart from the previous practice of making his oral statement on the day on which the Autumn Statement is published, and instead make it on Thursday 6 November and publish the Autumn Statement document the following Thursday, 13 November. I understand that the Chancellor spoke to the Chief Whip about this at the end of July, and established that the House would still be sitting on 6 November.

The Prime Minister has agreed that the aim should be to follow that sequence: final public expenditure decisions on Thursday 6 November; an oral statement the same afternoon; and publication of the printed Autumn Statement on Thursday 13 November. I should be grateful if you, Stephen Wood and Murdo Maclean (to whom I am copying this letter) would let me know if the Lord President, the Lord Privy Seal and the Chief Whip are content.

I am also copying this letter to David Norgrove.

*Yours  
 Alex*

A C S ALLAN  
 Principal Private Secretary



CONFIDENTIAL

*purp*



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

9 September 1986

*Dear Alex*

**PUBLIC EXPENDITURE: TIMING OF THE AUTUMN STATEMENT**

Thank you for your letter of 8 September to Joan MacNaughton.

The Lord President is content with the Chancellor's proposed timetable for the announcement of this year's public expenditure decisions.

I am sending a copy of this letter to David Norgrove, Steven Wood and Murdo Maclean.

*Yours ever  
Nick Gibbons*

N F J GIBBONS  
Asst Private Secretary

A C S Allan Esq  
Private Secretary to the  
Chancellor of the Exchequer

*✓  
10/9*

CH/EXCHEQUER	
REC.	09 SEP 1986
ACTION	MR SCHOLAR
COPIES TO	CST EST EST MST
	SIR P MIDDLETON
	SIR T BURNS
	MR F E R BUTLER
	MR ANSON
	MR TURNBULL
MR MOORE	
MR PRATT	

*MR SCHOLAR  
MR TYRRE*

CONFIDENTIAL



SECRET

*Paper 10/9*

From: M C SCHOLAR  
Date: 10 September 1986

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Turnbull
- Mr Sedgwick
- Miss Peirson
- Mr Mowl
- Mr Culpin
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey

*Ch*  
*It really all that different.*  
*Some sort of table "does work"*  
*necessary.*

*AA*  
*10/9*  
*Many Parks.*  
*Byrne comm 48, 1 SW*  
*or gratuity for*  
*Dist. 1 SW*  
*Dec*  
*Mr Culpin*

*also, of course,*  
*that of the CSI.*  
*M.*

AUTUMN STATEMENT : FORMAT AND TIMING

You asked to see a redraft of last year's oral Autumn Statement in the format that will be necessary for this year's circumstances (a fuller oral statement in the afternoon following the final public expenditure Cabinet, with the printed Autumn Statement not being published until a week later). I attach such a redraft.

2. Although it is already clear that we will need a fuller treatment than last year in two areas - the explanation of the forecast outturn for public expenditure in the current year, and of how the new expenditure figures fit with the financial strategy - we have not attempted to reflect these differences in the present draft based as it is on last year's Statement. Indeed, we have not identified any very extensive changes which would be needed to last year's format. We will be publishing the Industry Act forecast on the day of the oral statement so the attached draft does not expand the oral statement on that account. The attached draft also assumes that there will be no reason to give any more detail or higher profile to the proposals for the national insurance contributions.

*(unless do help for*  
*Long Term unemployed)*

*SECRET*  
*10/9*



3. The main change therefore to the format of public expenditure section of the Statement will be to make it more comprehensive so that credibility can be given to the planning totals by showing, in very rounded terms, how they can be derived from the changes to individual programmes. (Although I have used the figures you gave in last year's Statement, I have no doubt that they will need to be more heavily rounded this year.)

4. As we have worked on this mock-up it has become increasingly clear that it will be very difficult for MPs, journalists and others, to grasp how the figures add up unless we provide some form of table. It seems likely, therefore, that there will be criticism - possibly in the House, during questions following the Statement, but almost certainly from journalists, when seeking to interpret the Statement - if we do not provide a table showing how the changes to individual programmes can be reconciled with the planning total. It will be difficult to defend any refusal to supply such a table. Indeed, such a failure might well be interpreted as an implicit admission that the figures do not add up.

5. But it may, in practice, be difficult to provide such a table. It is possible that, while agreeing the planning total, and the main changes to programmes, Cabinet will leave some items to be decided between individual Ministers in the period between the Cabinet and the publication of the printed Statement. It may be possible to cover the areas of disagreement by using heavily rounded figures, but we cannot be certain that this will work. Moreover, even the heavily rounded figures will have to be agreed by departments and there will only be a few hours available to achieve this.

6. Nevertheless, we believe that it will be necessary to produce some simple table to be available in the Vote Office for MPs, and to give to journalists. If you agree, we will set in train the necessary arrangements to give us the best chance of producing a credible table for the afternoon of the oral statement.

MCS

M C SCHOLAR

At  
least  
aim  
for full  
agreement  
@ Cabinet



DRAFT

1985 AUTUMN STATEMENT

(Redrafted as if the oral statement were given a week in advance of the publication of the printed version)

(Sidelined where there are changes from last year's version - which is attached)

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

As the House will not be sitting next week, it is not possible this year to follow in every detail the usual timetable for publication of the Autumn Statement. But I thought it would be for the convenience of the House if I were to make a full oral statement today about the Government's public expenditure decisions, its proposals for next year's national insurance contributions, and the forecast of economic prospects for 1986 required by the Industry Act 1975. The printed Autumn Statement, in its usual form, will be laid before the House when we come back next week.

The outturn for public expenditure, in this financial year, is expected to be the same as set out in the Budget - that is £134 billion.

For future years, too, the Government will maintain firm control of public expenditure. Following this year's review, the planning totals for 1986-87 and 1987-88 will be held to the levels set out in the Budget - £139 billion and £144 billion,



respectively. For 1988-89, the total has been set at £149 billion. Over these three years public spending in real terms is expected to be broadly flat and very slightly below this year's level. As a percentage of national output it will continue to decline as it has since 1982-83. By 1988-89 it should be back to its lowest percentage since 1972-73.

In order to meet contingencies, the plans contain large Reserves, rising from £4½ billion in 1986-87 to £8 billion in 1988-89. The reduction in the Reserve for 1986-87 as compared with the provisional Reserve for that year, which I announced at the time of the Budget, chiefly reflects the fact that the passage of time allows part of the Reserve in any given year to be allocated to individual expenditure programmes as their costs become known more accurately. But the £4½ billion Reserve for the year immediately ahead remains a substantial figure.

Despite the fact that the planning total for 1985-86 is expected to be in line with the figure I announced in the Budget, the public sector borrowing requirement - subject to the usual margin of uncertainty at this time of year - is forecast to be about £1 billion higher, some £8 billion rather than £7 billion. This is due to lower sterling oil revenues. But even at £8 billion, the PSBR would be the smallest that it has been as a percentage of GDP since 1971-72.

The PSBR would of course have been running at a higher level than this were it not for the proceeds from privatisation,



to which I will turn in a moment. But even without the privatisation proceeds, this year's forecast PSBR would still be the smallest as a percentage of GDP since 1971-72.

The Government's privatisation programme is now getting into top gear and will continue for many years to come. I cannot stress strongly enough the importance of this programme - now being emulated throughout the world - as a fundamental objective of Government policy. The transfer of state owned businesses to the free enterprise sector of the economy brings enormous long term benefits to the nation as a whole in terms of greater concern for the customer and increased efficiency. It also provides the opportunity for a massive boost to wider share ownership, among both the public in general and the employees of those great enterprises in particular.

The increased pace of privatisation means that the proceeds from this programme would rise substantially from £2½ billion this year to £4¼ billion in each of the next three years. In particular, the planned flotation of the British Gas Corporation is included for the first time. At the same time, however, there have been increases in a number of public expenditure programmes so that the overall planning totals have remained unchanged.

However this needs to be seen in perspective. Even if the proceeds from from privatisation were to be ignored altogether, the public expenditure planning total would still be broadly flat in real terms, at less than 1 per cent of this year's



total, and public spending would still be on a steadily declining path as a percentage of GDP, reaching by 1988-89 its lowest level since 1972-73.

The annual review of public spending provides an opportunity to reconsider priorities and adjust the balance between programmes. While some programmes this year have been held back, it has been possible to make significant additions to others.

Expenditure on health and personal social services will increase by £310 million in 1986-87 and £330 million in 1987-88, of which £250m in 1986-87 and £300m in 1987-88 is for increased spending on the National Health Service. On top of this, health authorities will be able to spend the savings from their cost improvement programmes, which are expected to amount to £150 million this year and still more in future years. This should enable health authorities to meet demographic pressures and to deliver improvements in services as well.

Additional provision has been made for elements of local authorities' expenditure. Total public sector provision for housing is being increased by £220 million, net of receipts, in 1986-87 and £200 million in 1987-88 so that the housing plans now provide for some £3¼ billion of capital spending next year. Within this total, the Government believe there should be a substantial shift in priorities in favour of renovation of the existing public sector housing stock. Education expenditure is being increased by £300 million in 1986-87 and £170 million in 1987-88.



The social security programme is to be increased by over £1 billion in 1986-87 and £¼ billion in 1987-88. This reflects the latest estimates of benefit expenditure and allows for benefit upratings in July 1986, April 1987 and April 1988. The provision is subject to adjustment in the light of decisions consequent on the Social Securities Review.

In the aftermath of the coal strike, the energy programme is increased by around £1 billion in 1986-87 and £330 million in 1987-88.

Increased provision is necessary to meet the cost of intervention buying by the Intervention Board for Agricultural Produce. Provision for this programme is to be increased by £270 million in 1986-87 and £340 million in 1987-88.

The higher than expected cost of interest support for fixed rate export finance means that provision for the Export Credits Guarantee Department will be increased by £200 million in 1986-87 and £210 million in 1987-88.

On employment there were large additions in the Budget to fund an expansion of the Youth Training Scheme and the community programme. In this Survey a number of new initiatives have been agreed but savings are to be made by a reduction in payments from the redundancy fund. My right hon. and learned friend the Paymaster General will be making a statement giving further details later today.



The provision for Defence expenditure remains as planned.

Expenditure in Scotland, Wales and Northern Ireland will be changed in line with comparable English programmes, resulting in total extra provision for Scotland of £200 million and £70 million in 1986-87 and 1987-88 respectively; in Wales of £30 million and £10 million and in Northern Ireland of £60 million and £90 million.

In addition, there are a number of smaller changes amounting to a total of around £400m in 1986-87 and £750m in 1987-88.

There have been significant improvements in efficiency and value for money in many programmes. It is a great mistake to fall into the trap of measuring public expenditure programmes solely in terms of the money put into them; it is improved output that matters.

A summary table setting out these figures will be available in the Vote Office when I sit down, and further details of these and other changes will be contained in the printed version of the Autumn Statement. In addition, full details together with information on running costs and manpower will be given in the public expenditure White Paper to be published 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.

The lower earnings limit will be increased next April to £38 a week, in line with the single person's pension, and the upper earnings limit will be similarly increased to £285 a week, broadly in line with earnings.

I announced in the Budget reduced rates of contribution for the lower paid and their employers - 5 per cent for those earning up to £55 a week, 7 per cent for those earning up to £90 a week and 9 per cent for employers of workers earning up to £130 a week. These took effect at the beginning of last month and are already starting to provide welcome assistance to the low paid and their employers, and a stimulus to the employment of the young and unskilled. The limits for these reduced rate bands will also be increased from April, in line with the lower and upper earnings limits, to £60, £95 and £140 a week, respectively.

There will be no change in the main class 1 contribution rates, which will remain at 9 per cent for employees and 10.45 per cent for employers. This is the third year running in which national insurance contribution rates have been held constant, despite a growing number of pensioners and the substantial uprating of benefits taking effect later this month.



My right hon. Friend the Secretary of State for Social Services will this afternoon announce details of these proposals, and will, next week lay before Parliament the necessary order and the accompanying report by the Government Actuary.

Finally, I turn to the Industry Act forecast. The economy is progressing very much as I envisaged at the time of the Budget. Inflation is falling again, after the predicted temporary rise in the spring, although I now expect inflation in the fourth quarter of this year to be slightly above the Budget forecast: 5½ per cent rather than 5 per cent.

The overall growth of the economy this year still looks like turning out at 3½ per cent - the highest rate of growth since 1973.

The pattern of growth, too, has been much as envisaged. Exports and business investment, as expected, were the fastest growing elements in demand in 1985. The rise in total investment is now put at 4 per cent in 1985; within this figure business investment is expected to be up by 7 to 8 per cent, to yet another all-time record.

As a result of this steady progress, there has been a substantial growth in the number of people in work since 1983. This has now been reflected in a levelling out in unemployment - albeit still at a sadly high level, not least because of the rapid growth in the total labour force. The prospect here is for some further improvement, assisted by



the measures I announced in the Budget to help on the jobs front, which will have their main effect in 1986. But that improvement could easily be put at risk by excessive pay settlements.

The prospect for 1986 is one of continued growth and still lower inflation. The composition of growth is likely to change somewhat, with consumer spending taking up the running as exports - which had an exceptional rise of 7 per cent this year - grow more slowly. The current account balance of payments surplus is forecast at £4 billion, compared with £3 billion in 1985. Fixed investment is expected to grow, once again, slightly faster than the economy as a whole.

Overall, the economy in 1986 is expected to grow by a further 3 per cent - the fifth successive year of growth at an average of 3 per cent a year, and into the sixth, the best performance since the first oil shock. At the same time, inflation is expected to fall further, to 3¼ per cent in the fourth quarter of 1986.

Indeed, if the forecast is correct - and I am the first to admit its inevitable fallibility - 1986 promises to be the first year since the 'sixties when inflation and growth will be within one point of each other. What is beyond doubt is that we are now achieving the steady growth with low inflation which successive Governments have sought in vain for a generation.



All in all, Mr Speaker, the progress and prospects I have described amount to the clearest possible vindication of the policies we have been following these past six years, and will continue to follow.

The full text of the Autumn forecast is to be published today by the Treasury, and will be included as usual in the printed Autumn Statement next week. The forecast is now available in the Vote Office.

The forecast and the framework of public expenditure control which I have described today should allow scope for considered and justified reductions in the burden of taxation and these in turn will further reinforce the economy's flexibility and dynamism. It is on that prospect that the future prosperity of all our people depends.



## Autumn Statement

3.33 pm

**The Chancellor of the Exchequer (Mr. Nigel Lawson):** With permission, Mr. Speaker, I should like to make a statement.

I am laying before the House today an autumn statement which brings together the Government's outline public expenditure plans, proposals for national insurance contributions next year, and the forecast of economic prospects for 1986 required by the Industry Act 1975.

This year's autumn statement contains considerably more information than its predecessors. It breaks new ground by providing a forecast of the public expenditure outturn for 1985-86 for each Department, and the plans not just for the year immediately ahead but for each of the next three years. Both these innovations meet specific requests from the Select Committee on the Treasury Civil Service and I hope that they will be welcomed by hon. Members.

The outturn for this financial year is expected to be the same as set out in the Budget, that is, £134 billion. After allowing for inflation, this is lower than last year, which bore the brunt of the public expenditure cost of the coal strike.

The Government will continue to maintain firm control over public spending. Following this year's review, the planning totals for 1986-87 and 1987-88 will be held to the levels set out in the Budget—£139 billion and £144 billion, respectively. For 1988-89 the total has been set at £149 billion. Over these three years public spending in real terms is expected to be broadly flat at very slightly below this year's level. As a percentage of national output it will continue to decline as it has since 1982-83. By 1988-89 it should be back to its lowest percentage since 1972-73.

In order to meet contingencies, the plans contain large reserves, rising from £4½ billion in 1986-87 to £8 billion in 1988-89. The reduction in the reserve for 1986-87 as compared with the provisional reserve for that year, which I announced at the time of the Budget, chiefly reflects the fact that the passage of time allows part of the reserve in any given year to be allocated to individual expenditure programmes as their costs become known more accurately. But the £4½ billion reserve for the year immediately ahead remains a substantial figure.

Although I expect the planning total for 1985-86 to be the same as I did at the time of the Budget, the public sector borrowing requirement—subject to the usual margin of uncertainty at this time of year—is forecast to be about £1 billion higher—some £8 billion rather than £7 billion. This is due to lower sterling oil revenues. But even at £8 billion the PSBR would be the smallest that it has been as a percentage of GDP since 1971-72.

The PSBR would, of course, have been running at a higher level than this were it not for the proceeds from privatisation, to which I will turn in a moment. But even without the privatisation proceeds, this year's forecast PSBR would still be the smallest as a percentage of GDP since 1971-72.

The Government's privatisation programme is now getting into top gear and will continue for many years to come. [Interruption.] I am glad to see that the Opposition welcome that. I cannot stress so strongly the importance of this programme—now being emulated throughout the world—as a fundamental objective of Government policy. The transfer of state-owned businesses to the free

enterprise sector of the economy brings enormous long-term benefits to the nation as a whole in terms of greater concern for the customer and increased efficiency. It also provides the opportunity for a massive boost to wider share ownership, among both the public in general and the employees of those great enterprises in particular.

The increased pace of privatisation means that the proceeds from this programme will rise substantially from £2½ billion this year to £4¾ billion in each of the next three years. In particular, the planned flotation of the British Gas Corporation is included for the first time. At the same time, however, there have been increases in a number of public expenditure programmes, so that the overall planning totals have remained unchanged.

However, this needs to be seen in perspective: Even if the proceeds from privatisation were to be ignored altogether, the public expenditure planning total would still be broadly flat in real terms, at less than 1 per cent. above this year's total, and public spending would still be on a steadily declining path as a percentage of GDP, reaching by 1988-89 its lowest level since 1972-73.

The annual review of public spending provides an opportunity to reconsider priorities and adjust the balance between programmes. While some programmes this year have been held back, it has been possible to make significant additions to others.

There will be increased spending on the National Health Service over previous plans of £250 million in 1986-87 and £300 million in 1987-88. On top of this, health authorities are able to spend the savings from their cost improvement programmes, which are expected to amount to £150 million this year and still more in future years. This should enable health authorities to meet demographic pressures and to deliver improvements in services as well.

Total public sector provision for housing is being increased by £220 million net of receipts in 1986-87 and £200 million in 1987-88, and the housing plans now provide for some £3¼ billion of capital spending next year. Within this total, the Government believe that there should be a substantial shift in priorities in favour of renovation of the existing public sector housing stock.

An extra £54 million in 1986-87 and £71 million in 1987-88 is being made available for capital expenditure on national and local roads.

Just over £1 billion is being added to the social security programme for 1986-87, largely as a result of the 7 per cent. increase in benefits taking effect this month. Expenditure in the subsequent years of the survey period is subject to decisions on the Government's social security review, on which a White Paper will be published shortly.

Additional provision has been made under the law and order programme to allow local authorities to direct extra spending towards the police.

For defence, the provision is unchanged. After the substantial real increases in spending since 1978-79, from which the defence programme will continue to benefit, the emphasis must now switch to improving our defence capability through greater efficiency and value for money, especially in procurement.

On employment, there were large additions in the Budget to fund an expansion of the youth training scheme and the community programme. In this survey, a number of new initiatives have been agreed but savings are to be made by a reduction in payments from the redundancy



[Mr. Nigel Lawson]

fund. My right hon. and learned Friend the Paymaster General will be making a statement giving further details later today.

There have been significant improvements in efficiency and value for money in many programmes. It is a great mistake to fall into the trap of measuring public expenditure programmes solely in terms of the money put into them: it is improved output that matters.

Further details of these and other changes are contained in the autumn statement itself, and of course full details, together with information on running costs and manpower, will be given in the public expenditure White Paper to be published 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.

The lower earnings limit will be increased next April to £38 a week, in line with the single person's pension, and the upper earnings limit will be similarly increased to £285 a week, broadly in line with earnings.

I announced in the Budget reduced rates of contribution for the lower paid and their employers—5 per cent. for those earning up to £55 a week, 7 per cent. for those earning up to £90 a week and 9 per cent. for employers of workers earning up to £130 a week. These took effect at the beginning of last month and are already starting to provide welcome assistance to the low paid and their employers, and a stimulus to the employment of the young and unskilled. The limits for these reduced rate bands will also be increased from April, in line with the lower and upper earnings limits, to £60, £95 and £140 a week, respectively.

There will be no change in the main class 1 contribution rates, which will remain at 9 per cent. for employees and 10.45 per cent. for employers. This is the third year running in which national insurance contribution rates have been held constant, despite a growing number of pensioners and the substantial uprating of benefits taking effect later this month.

My right hon. Friend the Secretary of State for Social Services will this afternoon announce details of these proposals, and will lay before Parliament the necessary order and the accompanying report by the Government Actuary.

Finally, I turn to the Industry Act forecast. The economy is progressing very much as I envisaged at the time of the Budget. Inflation is falling again, after the predicted temporary rise in the spring, although I now expect inflation in the fourth quarter of this year to be slightly above the Budget forecast: 5½ per cent. rather than 5 per cent.

The overall growth of the economy this year still looks like turning out at 3½ per cent.—the highest rate of growth since 1973.

The pattern of growth, too, has been much as envisaged. Exports and business investment, as expected, were the fastest growing elements in demand in 1985. The rise in total investment is now put at 4 per cent. in 1985; within this figure business investment is expected to be up by 7 to 8 per cent., to yet another all-time record.

As a result of this steady progress, there has been a substantial growth in the number of people in work since

1983. This has now been reflected in a levelling out in unemployment—albeit still at a sadly high level, not least because of the rapid growth in the total labour force. The prospect here is for some further improvement, assisted by the measures I announced in the Budget to help on the jobs front, which will have their main effect in 1986. But that improvement could easily be put at risk by excessive pay settlements.

The prospect for 1986 is one of continued growth and still lower inflation. The composition of growth is likely to change somewhat, with consumer spending taking up the running as exports—which had an exceptional rise of 7 per cent. this year—grow more slowly. The current account balance of payments surplus is forecast at £4 billion, compared with £3 billion in 1985. Fixed investment is expected to grow, once again, slightly faster than the economy as a whole.

Overall, the economy in 1986 is expected to grow by a further 3 per cent.—the fifth successive year of growth at an average of 3 per cent. a year, and into the sixth, the best performance since before the first oil shock. At the same time, inflation is expected to fall further, to 3¾ per cent. in the fourth quarter of 1986.

Indeed, if the forecast is correct—and I am the first to admit its inevitable fallibility—1986 promises to be the first year since the 'sixties when inflation and growth will be within one point of each other. What is beyond doubt is that we are now achieving the steady growth with low inflation which successive Governments have sought in vain for a generation.

All in all, Mr. Speaker, the progress and prospects I have described amount to the clearest possible vindication of the policies we have been following these past six years, and will continue to follow.

The autumn statement is now available from the Vote Office, and the House will no doubt wish to take it into account when we debate the economy tomorrow. The framework of public expenditure control which it sets out should allow scope for considered and justified reductions in the burden of taxation; and these in turn will further reinforce the economy's flexibility and dynamism. It is on that prospect that the future prosperity of all our people depends.

**Mr. Roy Hattersley** (Birmingham, Sparkbrook): The Chancellor, with characteristic modesty, claims an achievement which a generation of his predecessors sought but failed to obtain. The speaking note for Government Back Benchers, which has been circulated on today's subject—the economy—describes its state as a dream come true. Does the Chancellor regard the economy as a "dream come true" for the 3.5 million men and women who are unemployed, for the families whose child benefit is to be cut in real terms, for the 95 per cent. of taxpayers who are paying more now than in 1979 and for the owner-occupiers who are burdened by uniquely high interest rates?

Will the Chancellor tell us some of the details of his proposal? Why have we not this year been told the size of what is called the "fiscal adjustment"? Is it because last year the right hon. Gentleman so mismanaged and bungled his tax cut promises that he precipitated the January sterling crisis? Is it simply because, like so many other promises—especially tax cut promises—what started out as an estimate of fiscal adjustment ended with a promise that he failed to deliver? Or, more likely, has he failed to



SECRET



pwp

FROM: A C S ALLAN  
DATE: 11 SEPTEMBER 1986

MR SCHOLAR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Butler  
Mr Anson  
Mr Turnbull  
Mr Sedgwick  
Miss Peirson  
Mr Mowl  
Mr Culpin  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

**AUTUMN STATEMENT: FORMAT AND TIMING**

The Chancellor was most grateful for your minute of 10 September and the attached redraft of last year's oral Autumn Statement. He would be grateful for any observations that the Chief Secretary and Mr Culpin may have, including whether we should provide a table.

A handwritten signature in black ink that reads "A C S Allan".

A C S ALLAN

ALLAN  
→  
Scholar  
11/9



SECRET

PLSP

From: R B SAUNDERS

Date: 12 September 1986

MR SCHOLAR

cc Chancellor  
Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir T Burns  
Mr F E R Butler  
Mr Anson  
Mr Turnbull  
Mr Sedgwick  
Miss Peirson  
Mr Mowl  
Mr Culpin  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

AUTUMN STATEMENT: FORMAT AND TIMING

Sir Peter Middleton has seen your minute of 10 September and the Chancellor's comment recorded in Mr Allan's minute of 11 September. He would be inclined to think that we do not need much in the way of a table. He thinks that the total plus the main programmes would probably do.



R B SAUNDERS  
Private Secretary

SAUNDERS  
→  
SCHOLAR  
12/9



CONFIDENTIAL

pwp

From: R PRATT

Date: 12 September 1986

MR A C S ALLAN

cc Mr Scholar

## TIMETABLE TO THE AUTUMN STATEMENT

We are now about to finalise the timetable to the Autumn Statement. A copy of this attached.

2. I think, however, it would be helpful if you were to look through the further enclosure which lists the proposed dates for the submission, to the Chancellor, of various different aspects of the Autumn Statement. Not all the dates are firm, and there may be other submissions (for example on MG) whose timing we cannot yet predict. But, we have tried to avoid too much coming forward at any one time (and to anticipate what other briefing on other subjects might also require the Chancellor's attention). However, you might like to check that you are content.



RICHARD PRATT



## AUTUMN STATEMENT SUBMISSIONS TO TREASURY MINISTERS

Date	Title of Paper	Response Required by
9 October	Paper for Star Chamber	10 October
10 October	Upgrading Factor for Part IV	14 October
" "	Forecast Report	16 October
" "	Timing of Winter Supplementaries	16 October
17 October	Drafts of Parts III and IV of the Autumn Statement	22 October
22 October	Star Chamber Stocktaking Paper	23 October
24 October	Industry Act Forecast Draft (Part I of AS)	27 October
29 October	Submission on Presentation of 1986-87 Outturn	30 October
" "	First Draft of AS Brief	31 October
30 October	Revised Draft IAF (Part I of AS)	3 November
31 October	First Draft of AS Part II (Public Expenditure)	3 November
" "	First Draft of Oral Statement	3 November
" "	Draft of Chancellor's Paper for Cabinet	3 November
" "	[Briefing for First Order PQs]	3 November
" "	[NEDC Brief]	5 November
3 November	Revised Draft Oral Statement	5 November
" "	Revised Draft IAF (AS Part I)	4 November
" "	Revised Draft Part II of AS	4 November
" "	Briefing for Cabinet	4 November
4 November	Revised First Order PQ Briefing	-
" "	Special Advisers Brief for Backbenchers	5 November
5 November	Further Revise of Oral Statement	-
" "	AS Brief	-
" "	Revised Brief for Cabinet	-
" "	Revised First Order PQ Brief	-



Date	Title of Paper	Response Required by
6 November	(Oral Statement delivered)	
"	"	Full printer's proof of AS
7 November		
10 November	First Draft of Speech for Economic Debate	11 November
11 November	Book proofs of AS	12 November
14 November	Economic Debate: Draft Speech	17 November
18 November	Economic Debate: Final Draft Speech	19 November









FROM: A C S ALLAN

DATE: 12 SEPTEMBER 1986

CHANCELLOR

*Handwritten notes in red ink:*  
We are still confused  
Awaiting your answer; so  
I am writing to you as  
for the answer; so  
can you write back to  
me so I can see  
the date for the  
statement -  
v. diff.  
late for  
yr. 1986

**TCSC AND AUTUMN STATEMENT**

Terence Higgins rang me to ask whether you would feel able to give him, on a strictly personal basis, indications of when the date of the Autumn Statement and the subsequent Debate might be. He is planning the TCSC hearings on their international monetary inquiry, and on the Autumn Statement, and would find it very helpful to know what the timetable was likely to be.

2. His plans must be pretty awry at the moment, since he was talking of Prorogation on 30 October and the State Opening on 6 November.

3. I had a word about this with Michael Scholar, who said that he did not see any harm in helping Mr Higgins by telling him in strict confidence that the possible dates were 6 November or 13 November. Would you be content with this? And if so would you like to speak to Mr Higgins yourself, or shall I?

*Handwritten note:*  
Note  
Spoke to Mr Higgins on  
lines agreed.  
AA  
18/9

**ACSA**  
A C S ALLAN



*psp*



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

16 September 1986

Dear Alex,

The Lord Privy Seal has seen a copy of your letter of 8 September to Joan MacNaughton, proposing that the Chancellor should make his oral Autumn Statement on 6 November, with the printed document to be published a week later.

The Lord Privy Seal would be content with this arrangement.

I am copying this to Joan MacNaughton, David Norgrove and Murdo Maclean

*Yours,  
Steven.*

S N WOOD

A C S Allan Esq  
Private Secretary to  
the Chancellor of the Exchequer

CH/EXCHEQUER	
REC.	16 SEP 1986
ACTION	MR SCHOLAR ✓ 1619
COPIES TO	CST FOR EST MST SIR P. MIDDLETON SIR T. BURNS MR F. BULLER MR ANTON MR TUNDSALL MR MURPHY MR PRATT MR TYRRE



SECRET

FROM: ROBERT CULPIN  
DATE: 16 SEPTEMBER 1986

CHANCELLOR  
CHIEF SECRETARY

cc FST  
EST  
MST  
Sir P Middleton  
Sir T Burns  
Mr Butler  
Mr Anson  
Mr Scholar  
Mr Sedgwick  
Miss Peirson  
Mr Turnbull  
Mr Mowl  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

*I agree with this. At the talk, I still like work for date in Mr Scholar session (para 6 of his submission - done on 10/9) + back a mock-up of various of talk. It is more of a further. No more submission & another session. It is clear. No further. Cabinet on Nov 6. Mr. AA*

CULPIN  
→  
CH/EX  
16/9

**AUTUMN STATEMENT**

Miss Rutter's note of 12 September asked when we expect Ministers to give interviews on the Survey outcome; and Mr Allan's note of 11 September asked if we should aim to publish a public expenditure table with the Oral Statement.

2. We don't need to settle details now, but I assume that on Oral Statement day:

- a. you will both make yourselves available to the Lobby and the Backbench Finance Committee (in that order);
- b. you and your ministerial colleagues will then do radio and television interviews;
- c. there will be no need for a press conference as well, but we might (or might not) provide a background briefing by officials, primarily on the forecast.

All this would follow past precedent.

3. I also assume that on Autumn Statement day:

SECRET



- a. there will be no need to see the Lobby or the backbenchers a second time;
- b. there will probably be a few more interviews;
- c. there will probably still be no need for a press conference, though we could have one, as an innovation, if the reaction to the Oral Statement suggests that it would help.

4. I see no procedural problem about any of this.

5. I agree with Mr Scholar that it would help in briefing the press, and MPs, if we could publish a summary public expenditure table on Oral Statement day. That would help to meet the Chief Secretary's concern that we should not find ourselves revealing more details to the press than to Parliament in advance of the Autumn Statement. But whether it will be practically possible is a question we cannot answer now.



ROBERT CULPIN





*PUY*

FROM: P D P BARNES  
DATE: 17 September 1986

MR SCHOLAR

cc **Chancellor**  
Chief Secretary  
Financial Secretary  
Minister of State  
Sir Peter Middleton  
Sir T Burns  
Mr F E R Butler  
Mr Anson  
Mr Turnbull  
Mr Sedgwick  
Miss Peirson  
Mr Mowl  
Mr Culpin  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

*Ch*  
*Indeed!* (see X & Y  
- Dr McDonald  
hasnt spotted it)  
*AA*

**AUTUMN STATEMENT: FORMAT AND TIMING**

The Economic Secretary has seen your submission of 10 September to the Chancellor.

2. The Economic Secretary would be grateful if the phrase "State owned" could as far as possible be avoided until after the TSB fuss has faded. (The phrase appears on page 3 of your draft.)

*WPM spotted. But  
the TSB is accepted by all  
as an anomaly - I'm not  
sure that (once the  
place) has  
longer simply  
because of them.  
alter our  
FB*

P D P BARNES  
Private Secretary



BF 25/9



FROM: A C S ALLAN

DATE: 17 September 1986

MR CULPIN

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir P Middleton  
 Sir T Burns  
 Mr Butler  
 Mr Anson  
 Mr Scholar  
 Mr Sedgwick  
 Miss Peirson  
 Mr Turnbull  
 Mr Mowl  
 Mr Cropper  
 Mr Tyrie  
 Mr Ross Goobey

ALLAN  
 →  
 CULPIN  
 17/9

**AUTUMN STATEMENT**

The Chancellor was grateful for your minute of 16 September and agrees with what you suggest about briefing and interviews. On the question of whether or not we should publish a table, he would like work to be done as Mr Scholar suggested (in paragraph 6 of his submission of 10 September). He would like to see a mock-up of one or two versions of such a table (ie. the most rudimentary and another showing the fuller version). He has commented that it is clearly very important to make sure that everything is settled at Cabinet on 6 November.

*ACSA*

A C S ALLAN



*Prof*



FROM: JILL RUTTER  
DATE: 18 September 1986

**PS/CHANCELLOR**

cc: Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr F E R Butler  
Mr Anson  
Mr Scholar  
Mr Culpin  
Mr Sedgwick  
Miss Peirson  
Mr Turnbull  
Mr C Mowl  
Mr Cropper  
Mr Tyrie  
Mr Ross Goobey

*PS/ST  
→  
ASK  
18/9*

**AUTUMN STATEMENT**

The Chief Secretary has seen Mr Culpin's minute of 16 September. He agrees with all of Mr Culpin's suggestions; and believes you should keep the option of a press conference open for now.

*Culpin*

**JILL RUTTER**  
Private Secretary



*prop*



FROM: A C S ALLAN  
DATE: 19 SEPTEMBER 1986

**PS/ECONOMIC SECRETARY**

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Minister of State
- Sir P Middleton
- Sir T Burns
- Mr Butler
- Mr Anson
- Mr Sedgwick
- Miss Peirson
- Mr Scholar
- Mr Mowl
- Mr Culpin
- Mr Cropper
- Mr Tyrie
- Mr Ross Goobey

**AUTUMN STATEMENT: FORMAT AND TIMING**

The Chancellor was grateful to the Economic Secretary for spotting the point about the use of the phrase 'State owned'. But he feels that the TSB is accepted by all as an anomaly, and he is not sure that (once the flotation has taken place) we should alter our language simply because of it.

*ACSA*

**A C S ALLAN**



AUTUMN  
STATEMENT

027/1396

SECRET

GRAY  
→  
CH/EX  
249

From: P R C GRAY  
Date: 24 September 1986

CHANCELLOR

cc Chief Secretary  
FST  
EST  
MST  
Sir P Middleton  
Sir T Burns  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Sedgwick  
Miss Peirson  
Mr Turnbull  
Mr Mowl  
Mr Culpin  
Mrs Dunn Mr Fellgett  
Mr Cropper  
Mr Tyrie  
Mr Ross-Goobey

AUTUMN STATEMENT

You asked (Mr Allan's minute of 17 September to Mr Culpin) to see a mock-up of possible summary tables that might be presented with your Oral Statement. We are still working on this, but for your meeting tomorrow afternoon you may like to see our first ideas of what might be provided.

2. We think it will be necessary to give information showing both levels and main changes. It might be simplest to do this by splitting the material into 2 tables, and I attach possible mock-ups.

3. Table 1 shows the levels. We assume you would want to give the summary aggregates for all three forward years as well as the estimated outturn for 1986-87. Numbers will clearly need to be given for spending on programmes, privatisation proceeds, Reserves and the planning total. It would be for consideration whether then to break down the programme figures. As indicated this could either be done on the basis of spending authorities



or Departments (and possibly both). Further optional items for the table would be the planning total in real terms, <sup>and</sup> the GGE/GDP ratios.

↑  
certainly?

4. Table 2 shows how we might illustrate the changes. There is no question of including figures here for 1989-90, for which there are no previous plans. It is perhaps a matter of choice whether to show figures for the three years 1986-87 to 1988-89 or simply to focus on 1987-88 as the first Survey year.

5. In order to illustrate the points in your Oral Statement, it will presumably be necessary to show some degree of detail of the programme changes both by spending authority and department. These analyses are shown separately in the bottom half of table 2. It would be possible to try to splice the two types of analysis together, but this would give rise to problems, eg the entries for Education would be split between LA relevant current and central government. So it might be better to keep the spending authority and departmental analyses separate. The bottom section of table 2 identifies only the four largest departments. Some further disaggregation of "other" will be necessary, but exactly which departments to pick out can probably only be decided nearer the time. We can be flexible about this more or less up to the last minute.

6. In both the levels and the changes tables the handling of entries for LA current presents one difficulty worth highlighting. Figures for relevant current are already in circulation following the July announcement, and it will probably be desirable to repeat these to make clear that nothing has changed for 1987-88 since July. But the price for this is that we have to put else LA non-relevant current (eg student awards) somewhere else; hence the tentative entries for Other LAs.

7. A final point concerning both tables is that, unless the figures have all been finalised and checked to a degree we do not currently think feasible within the timescale, fairly generous rounding will be required. For the main aggregates this might be to the nearest £¼ billion; more detailed figures might be to the nearest £100 million.

REC.



TABLE I - LEVELS

£ billion

1986-87   1987-88   1988-89   1989-90

1. Spending on programmes

[Possible breakdowns:

- Either (i)      Local authority relevant current
- (ii)      Local authority capital
- (iii)     Other LAs
- (iv)     NIs external finance
- (v)      Central government and other  
                  public corporations
- Or           (a)      Defence
- (b)      Health
- (c)      Social Security
- (d)      Education
- (e)      Other                                    ]

2. Privatisation proceeds

3. Reserves

4. Planning total (cash)

[5. Planning total (real terms)]

[6. GGE/GDP %]



TABLE 2 - MAIN CHANGES BETWEEN CMND 9702 AND NEW PLANS

£ million

[1986-87]   1987-88   [1988-89]Totals

1. Programmes
  2. Privatisation Proceeds
  3. Reserves
  4. Planning Total
- 

Changes in Programmes by Spending Authority

- (i) LA relevant current
  - (ii) LA capital
  - [(iii) Other LAs]
  - (iv) NIs external finance
  - (v) Central government and other PCs
- 

Changes in Programmes by Department

- (a) Defence
  - (b) Health
  - (c) Social Security
  - (d) Education
  - (e) Other (or possible further breakdown)
-



FROM: MISS M O'MARA

DATE: 8 OCTOBER 1986

CHANCELLOR OF THE EXCHEQUER

cc

- Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Cassell
- Mr Odling-Smee
- Mr Scholar
- Mr Turnbull
- Mr Gray
- Mr A Hudson
- Mr Pickering
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie
- B/10

*My only comment  
is this AS brief for  
Summer and last year,  
points on each year,  
what is attached to  
AS I recall it,  
no brief about  
what is for  
CR 8/10*

*content?*

*What is the  
purpose of  
this AS brief  
for the summer  
and last year?*

*What is the  
purpose of  
this AS brief  
for the summer  
and last year?*

**1986: AUTUMN STATEMENT BRIEF**

We shall be commissioning material for the Autumn Statement brief at the end of this week and thought you might like an opportunity to comment on its coverage before we do so.

2. I attach a list of subjects which we have discussed with FP and GEP. If you have time to glance at it, we should be grateful for any comments you may have or any additional points you would like us to cover.

*MOM*

MISS M O'MARA



## 1986 AUTUMN STATEMENT

		Lead Division	Consulting
<b>A STRATEGY</b>			
A1	Strategy	FP	GEP1, EB
A2	Summary of main points	FP	GEP1, EB
<b>B FISCAL, MONETARY AND EXCHANGE RATE POLICY</b>			
B1	Fiscal policy 1986-87 to 1989-90: revenue prospects 1986-87	PSF	MP1,FP
B2	Public sector borrowing: historical statistics and international comparisons	PSF	
B3	Monetary and exchange rate developments	MG1	
B4	Monetary policy	MG1	MP1
B5	Alternative policies	EB	
<b>C ECONOMIC BACKGROUND</b>			
C1	World economy	IF2	
C2	UK economy: recent developments	EB	EA1
C3	Industry Act forecast of UK	EA1	
C4	Oil	EA2	
C5	Prices	EA1	Pay
C6	Pay	Pay1	EA1, IAE3
C7	Labour market	EB	EA1
C8	Balance of payments and competitiveness	EA2	MG1
C9	Manufacturing industry in UK	EB	
C10	Outside forecasts	EB	
C11	Inter-government comparisons	EB	
<b>D AUTUMN STATEMENT</b>			
D1	Content, changes and timing compared with 1985	FP	GEP1



		Lead Division	Consulting
<b>E</b>	<b>TAX</b>		
E1	Tax ready reckoner	ET	
E2	Opposition tax policies	FP	EB, ST1
E3	North Sea tax regime	IR	FP, PE1
<b>F</b>	<b>SOCIAL SECURITY</b>		
F1	National Insurance contributions	ST1	
<b>G</b>	<b>PUBLIC EXPENDITURE: GENERAL</b>		
G1	Public expenditure in 1986-87	GEP2	
G2	Public expenditure 1987-88 to 1989-90	GEP1	
G3	Public expenditure: historical statistics and international comparisons	GEP3	
G4	Privatisation	PE2	
G5	Infrastructure	GEP2	
G6	Value for money	FM	
G7	Opposition spending commitments	Mr Tyrie	GEP1, EB
<b>H</b>	<b>PUBLIC EXPENDITURE: SPECIFIC BRIEFS</b>		
H1	Defence	DM1	
H2	Foreign and Commonwealth Office (Diplomatic Wing)	AEF1	
H3	Overseas Development Administration	AEF1	
H4	Net payments to European Community institutions	EC1	
H5	Agriculture: IBAP, domestic agriculture and forestry	IAE1	
H6	Trade and Industry	IAE2	
H7	Export Credits Guarantee Department	AEF2	
H8	Energy	PE1	
H9	Employment	IAE3	



	Lead Division	Consulting
H10 Transport	HE1	
H11 Housing (England)	LG2	
H12 Property Services Agency	LG2	
H13 Other environmental services	LG2	
H14 Home Office	HE1	
H15 Lord Chancellor's Department and Crown Prosecution Service	HE1	
H16 Education and Science	HE2	
H17 Arts and Libraries	HE2	
H18 Health and Personal Social Services (HPSS)	ST2	
H19 Social Security	ST1	
H20 Civil Superannuation	Superannuation	
H21 Scotland, Wales, Northern Ireland	ST3	
H22 Chancellor's Departments	FP	MG1, FIM1
H23 Departmental running costs	RCM	Pay1
H24 Nationalised industries	PE2	
H25 Local authority current expenditure	LG1	
H26 Local authority capital expenditure	LG1	



CONFIDENTIAL



1 plus  
2 PWD

FROM: CATHY RYDING  
DATE: 10 OCTOBER 1986

MISS O'MARA

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr F E R Butler  
Mr Anson  
Mr Cassell  
Mr Odling-Smee  
Mr Scholar  
Mr Turnbull  
Mr Gray  
Mr A Hudson  
Mr Pickering  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

**1986: AUTUMN STATEMENT BRIEF**

The Chancellor was grateful for your minute of 8 October.

2. His only comment is that he would like the Autumn Statement brief to be slimmer this year than last year, containing the key points on each issue, without any attempt to be comprehensive. As he recalls, the brief always indicates from whom further information can be obtained if required.

C.R.

CATHY RYDING



## KEY TO DRAFT AIDE MEMOIRE

(a)	INDIVIDUALS	
RC	Robert Culpin	IDT
BD	Brian Dyer	Parliamentary Section
NF	Nigel Fray	CH/EX's Office
MH	Meena Henson	CH/EX's Office
SW	Simon Woodall	IDT
SK	Simon Kemp	EB
AK	Tony Kuczys	CH/EX's Office
DL	Debbie Lester	CH/EX's Office
AA	Alex Allan	CH/EX's Office
MO'M	Margaret O'Mara	EB
SP	Stephen Pickford	IDT
RD	Ros Dunn	GEP
BP	Brian Porteous	EOG
RR	Rod Rawlings	EOG
DW	Doug Walters	FP
SM	Shirley Moody	CH/EX's Office
CR	Cathy Ryding	CH/EX's Office
ND	Nigel Dawson	EB

## (b) DIVISIONS ETC

CRU	Central Reproduction Unit
FP	Fiscal Policy
EA	Domestic Economy Forecasting and Analysis Division
GE	General Expenditure
IDCS	Information Division Clerical Section
CS	Committee Section
WPU	Word Processing Unit
LIB	Treasury Library



**AIDE MEMOIRE - ASSUMING PRINTED STATEMENT ON 13 NOVEMBER (PLAN B)****Wednesday 29 October to Sunday 2 November**

(1) to (17) same as Plan A

**Monday 3 November**

- (18) GE notify departments that oral Statement will be on 6 November, and printed statement on 13 November; confirm arrangements for press notices; tell FP how many Departments will issue PNs and whether on 6th or 13th. GE
- (19) HMSO submit first book proofs to FP: authors update as necessary and return to FP who submit proof to Chancellor. FP/GE/EA/ST/ETS
- (19a) EA consider whether dummy forecast is necessary EA
- (20) Chancellor returns draft of Oral Statement; FP revise and resubmit with copy for Prime Minister if appropriate. FP
- (21) AS brief circulated; authors to collect, revise sections and resubmit by close of play. EB
- (22) Divisions return contributions for briefing for Cabinet to FP and GEP (lunchtime), who edit it and submit it to Chancellor. FP/GE
- (23) Chancellor confirms arrangements for Radio/TV interviews. RC/AA
- (24) First Order Questions briefing meeting: TWB released. EB

**Tuesday 4 November**

- (25) Chancellor returns first book proofs (10am); book proofs returned to FP. FP returns proofs to HMSO. FP
- (26) EB revise AS brief and submit to CRU for copying. EB
- (27) Chancellor comments on briefing for Cabinet. AA
- (28) Lord President's and Chancellor's paper circulated to Cabinet. AA
- (29) Proofs of Winter Supplementaries submitted to Parl (?Wed). GE
- (30) Table "Notice of Motion for an Unopposed Return" for printing. BD

**Wednesday 5 November**

- (31) EA (by 10.00am) submit forecast to CRU for copying (1700 copies)
- (32) HMSO sends 2nd book proof of Autumn Statement to FP: FP circulates to authors. FP
- (33) Chancellor returns oral statement to FP, FP amends and resubmits to Chancellor. FP



- (34) AS brief recirculated for comments (am); authors submit comments by lunchtime; final version prepared and copied. EB/CRU
- (35) 100 copies of other Departments' press notices to Chancellor's Office. NF
- (36) FP and GEP resubmit briefing for Cabinet to Chancellor. GE/FP

**Thursday 6 November**

**8am**

- (37) EB distribute copies of AS brief to No 10, Treasury Ministers, Lord Young, PCC and a limited number of officials. EB

**am**

- (38) CRU deliver 1665 copies of Forecast Press Notice on the following distribution: Chancellor's Office (190 copies); Parliamentary Branch (750 copies); Committee Section/IDT (700 copies); and FP (25 copies). RR
- (39) Chancellor's Office send 30 copies to IDT of ODPNS and 5 copies to EB. NF
- (40) Chancellor's Office and Committee Section make up envelopes in preparation for distribution as at Annex A.
- (41) Chancellor's Office confirm length of OS with IDT to guide Radio/TV and with BD to enable him to inform the speaker. AA

**When Cabinet Breaks**

- (42) Chancellor's Office confirm go-ahead of oral statement and publication of the Forecast and a public expenditure table.

**By 2.30pm**

- (43) GE provide CRU with a final version of the public expenditure table: CRU start to produce 1665 copies; Chancellor's Office receive first 65 of their total batch of 125 as soon as possible. GE/NF/RR
- (44) Chancellor's Office provide CRU with final version of the oral statement: CRU start to produce 1600 copies. AA/RR
- (45) Chancellor's Office take 65 copies of the oral statement. NF



**By 3pm**

- (46) Chancellor's Office make up secret packages of 65 copies of ODPNs Forecast, oral statement and public expenditure table as at Annex A. Packages are despatched as at Annex B including:
- (47) 1 copy of AS package (A) for each of following taken to PPS Chancellor's room at House by DL. (NB AA to advise on exact time for this)

NF

DL/AA

Chancellor of the Duchy of Lancaster (Mr Tebbit) )with copies  
Leader of the House of Commons: Mr Biffen )of AS  
Leader of the House of Lords: Viscount Whitelaw )brief  
Chancellor's PPS (Mr Lilley) )  
Secretary of State for Employment (Lord Young)  
Leader of the Opposition (Mr Kinnock)  
Shadow Chancellor (Mr R Hattersley)  
Leader of the Liberals (Mr Steel)  
Leader of SDP (Mr Owen)  
Leader of Official Unionists (Mr Molyneux MP)  
Sir William Clark (Chairman of Conservative Finance Committee)  
Mr Sheldon, Chairman PAC  
Mr T Higgins, Chairman TCSC  
Mr Sainsbury (Treasury Whip)  
Vice Chamberlain of the Household (Hon Robert Boscawen MP)

1 copy of AS package (A) for each of the following, collected from Chancellor's Office and taken to Lords Whip's Office by BD:

Leader of Opposition in the Lords  
Leader of Liberals in the Lords  
Leader of SDP in the Lords  
Govt Whip in the Lords

BD

(48) CR to arrange for a copy of the OS to reach Official Report.

CR

(49) EB ensure that all officials in Official Box have copies of AS brief.

SK

**By 3.15pm**

(50) CRU provide 1665 copies of the P/E table on the following distribution:

RR

750 to Parliamentary Branch  
700 to IDT  
190 to Chancellor's Office  
25 to FP

(51) CRU provide 700 copies of the oral statement on the following distribution:

RR

325 to Parliamentary Branch  
250 to IDT  
125 to Chancellor's Office (including those already delivered at (43))

**At 3.15pm**

(52) Parliamentary Branch despatch 750 copies of P/E table and Forecast and 325 copies of oral statement as at Annex B (but embargoed for distribution at the House until the OS is complete).

BD

(53) IDT despatch 250 copies of Forecast, P/E table and oral statement as at Annex B.

SW



(54) Chancellor's Office package the remainder of their copies of the P/E table, Forecast, ODPNs and oral statement as at Annex A and despatch as at Annex B ie after Chancellor finishes speaking and by hand as appropriate.

NF

(55) Note changes in delivered OS from typed version and inform IDT if significant.

CR

**By 4.00pm**

(56) CRU provide 500 copies of the oral statement on the following distribution:

RR

425 to Parliamentary Branch  
75 to IDT

They despatch as shown at Annex B.

SW/BD

**By 4.30pm**

(57) CRU provide 375 copies of the oral statement to IDT who despatch as shown at Annex B and 25 copies to FP.

RR/SW

**After oral statement**

(58) Distribute AS brief to remaining recipients.

SK

**Friday 7 November**

(59) Authors return comments on 2nd proof of AS to FP: FP return 2nd proof of AS to printers and consider whether to submit copy to Chancellor.

FP/AA

**Monday 10 November**

(60) EB commission further comments on AS brief.

EB

(61) HMSO (am) returns proofs to FP.

FP

(62) If appropriate (see (59)) Chancellor comments on 2nd proof of AS.

AA

**Tuesday 11 November**

(63) (am) Proof of AS returned to printers.

FP

(64) Deadline for comments on revised AS brief.

EB

**Wednesday 12 November**

(65) (am): Read at press.

FP

(pm): Printer sends advance copies for FP/CHX/CST.

FP

(66) 100 copies of ODPNs and GAD Report sent to Chancellor's Office.

NF

(67) GEP send copies of any HMTPNs to CRU for reproduction (2105 copies).

GE



Thursday 13 November

am

(68) EB distribute copies of revised AS Brief to No 10, Treasury Ministers, Lord Young, PCC and a limited No of officials.

EB

(69) HMSO deliver (am) 725 copies of printed Autumn Statement as follows:

FP

120 to Library  
170 to Chancellor's Office  
410 to Committee Section  
15 to Parliamentary Branch  
10 to FP

(70) These plus any HMTPNs plus ODPNs and the GAD report are packaged during the morning as at Annex A and Annex C and released at [ ] pm.

(71) 2 copies of AS formally laid on the Table of each House.

BD

(72) Library to distribute printed AS to those Under Secretaries not listed in Annex A.

LIB



Distribution list serviced by Chancellor's Office requiring

## a) Oral Statement, Forecast and Public Expenditure table plus ODPN

Prime Minister	The Speaker
Chancellor	Chancellor of the Duchy of Lancaster
Chief Secretary	Secretary of State for Employment
Financial Secretary	Leader of the House of Commons
Economic Secretary	Leader of the Lords
Minister of State	Leader of the Opposition
Sir Peter Middleton	Mr Steel
Sir Terence Burns	Mr Owen
Sir Geoffrey Littler	Mr Molyneux
Mr F E R Butler	Shadow Chancellor
Mr Wilson	Chancellor's PPS
Mr Anson	Sir William Clark (Chairman of Conservative Finance Committee)
Mr Cassell	Mr Sheldon (Chairman PAC)
Mr Kemp	Mr Higgins (Chairman TCSC)
Mr Monck	Mr Sainsbury (Treasury Whip)
Mr Lavelle	Mr McKay (Clerk (TCSC))
Mr Byatt	Vice Chairman of the Household (Hon Robert Boscawen MP)
Mr Scholar	Leader of the Opposition (Lords)
Mr Moore	Leader of the Liberals (Lords)
Mr Sedgwick	Leader of the SDP (Lords)
Mr Peretz	Government Chief Whip (Lords)
Mrs Lomax	
Mr Odling-Smee	Total - 60 copies

---

 b) Oral Statement, P/E table and Forecast

Miss Peirson	
Mr Culpin	
Miss O'Mara (3 copies)	Sir A Fraser (C&E)
Mr P Gray	Mr Battishill (IR)
Mr Pratt	Customs (2 copies)
Miss Evans	Revenue (2 copies)
Mr Walters	Bank of England (6 copies)
Mr Cropper	NEDO (3 copies)
Mr Ross Goobey	CBI (3 copies)
Mr Tyrie	TUC (3 copies)
Mr Allan	NICG (3 copies)
Mr Kuczys	Conservative Research Department (3 copies)
Miss Ryding	Diplomatic Missions (16 copies)
	British Embassy Washington (3 copies)
	UKREP Brussels (4 copies)
	BIS New York
	British Embassy, Paris
	Principal Finance Officers (25 copies)
	Other Cabinet Ministers (25 copies)

Total - 102 copies



Sources and distribution of AS material on 6 November

## Sources

CRU	1600 copies of Oral Statement	125 to Chancellor's Office 700 to IDT 750 to Parliamentary Branch 25 to FP
CRU	1665 copies of P/E table	190 to Chancellor's Office 700 to IDT 750 to Parliamentary Branch 25 to FP
CRU	1665 copies of Forecast	190 to Chancellor's Office 700 to IDT 750 to Parliamentary Branch 25 to FP
OGDs	100 copies of OGDPNs	to Chancellor's Office

	OS/PE table & forecast	ODPNS	Time of distribution
EB	-	5	As soon as possible
Parly Branch (for Speaker)	1	1	As soon as possible. (Most urgent)
PM/HMT Mins	6	6	As soon as possible
IDT	-	30	As soon as all in
Parly Branch	23	-	As soon as possible
Customs/Revenue/Bank	12	-	As soon as possible
Ch Pte Office	3	3	As soon as possible
Commons/Lords	19	19	By 3.00 (see serial (47))
NEDO/CBI/TUC/NICG/CRD	15	-	After OS is complete
Embassies etc	16	-	After OS is complete
TCSC	1	1	After OS is complete
US/Brussels	8	-	After OS is complete
Paris	1	-	After OS is complete
PFOs	25	-	After OS is complete
Other Cabinet Ministers	25	-	After OS is complete
Others	30	30	After OS is complete
<b>Total</b>	<b>185</b>	<b>95</b>	



**Distribution by Parliamentary Branch**

	OS/PE table & forecast	ODPNs	Time of distribution
<b>Received from</b>			
Chancellor's Office	24	1	
CRU	750	-	
<b>Total</b>	<b>774</b>	<b>1</b>	
<b>Despatched to</b>			
Vote Office/PPO	750	-	As they become available
Speaker	1	1	As soon as possible. (V. urgent)
Govt Whips (Commons)	5	-	As soon as possible
Govt Whips (Lords)	8	-	As soon as possible
House Libraries	8	-	After OS is complete
<b>Total</b>	<b>772</b>	<b>1</b>	
<b>Distribution by IDT</b>			
<b>Received from</b>			
CRU	700	-	
Chancellor's Office	-	30	

**Despatched to**



Sources and distribution of AS material on 13 November

## Sources

HMSO	725 copies of AS	120 to Library 170 to Chancellor's Office 410 to Committee Section 15 to Parliamentary Branch 10 to FP
CRU	2105 copies of HMTPN	170 to Chancellor's Office 770 to Committee Section/IDT 1160 to Parliamentary Branch 5 to EB
OGDs	100 copies of OGDPNs	to Chancellor's Office
GAD	100 copies	to Chancellor's Office

## Distribution by Chancellor's Office

	AS	HMTPN	GAD Report	ODPN
Received from				
HMSO	170			
CRU		170		
DHSS			100	
OGD				100
<b>Total</b>	<b>170</b>	<b>170</b>	<b>100</b>	<b>100</b>

## Despatched to

EB			5	5
IDT			30	30
PM + HMT Mins	6	6	6	6
Parly Branch	1	1	1	1
Customs/Revenue/Bank	12	12		
Ch Pte Office	3	3	3	3
Commons/Lords	19	19	19	19
Hansard				
NEDO/CBI/TUC/NICG/CRD	15	15		
Embassies etc	16	16		
TCSC	1	1	1	1
US/Brussels	8	8		
Paris	1	1		
PFOs	25	25		
Other Cabinet Ministers	25	25		
Others	30	30	30	30
<b>Total</b>	<b>162</b>	<b>162</b>	<b>95</b>	<b>95</b>



## ANNEX C (cont)

## Distribution by Parliamentary Branch

	AS	HMTPN	GAD Report	OGDPN
Received from				
HMSO	15			
CRU		1160		
Chancellor's Office	1	1	1	1
<b>Total</b>	<b>16</b>	<b>1161</b>	<b>1</b>	<b>1</b>

## Despatched to

Vote Office/PPO		1150		
Speaker	1	1	1	1
House Libraries	8	8		
Formal presentation to Commons/Lords	4			
<b>Total</b>	<b>13</b>	<b>1159</b>	<b>1</b>	<b>1</b>

## Distribution by IDT

Received from				
Committee Section	410	770		
Chancellor's Office			30	30

## Despatched to

(Press Gallery	130	130		
(Lobby				
(Press	150	150		
(Non-Press	-	50		
(Departmental				
(Press Offices	40	40		
(Specialist Briefing	40	40	12	12
Treasury Mailing List	-	310		
IDT + Spares	30	30	18	18
FFJG	20	20		
<b>Total</b>	<b>410</b>	<b>770</b>	<b>30</b>	<b>30</b>



DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE
OCTOBER				
13		FP CONSIDER ARRANGEMENTS FOR THE STATEMENT IN THE HOUSE OF LORDS.		STAR CHAMBER REVIEWS TASKS.
14			PCG TAKE WEP + DOMESTIC FORECAST.	} STAR CHAMBER : FIRST ROUND OF MEETINGS.
15			MEETING WITH CHANCELLOR ON THE FORECAST.	
16	MANSION HOUSE SPEECH.			
17		[ ST + ETS SUBMIT DRAFTS OF PARTS 3+4 TO CH/EX. ]		
18/19			MEETING WITH P.M. ON FORECAST	
20	[ SOCIAL SECURITY UPDATING ANNOUNCED. ]			
21	HOUSE OF COMMONS RETURN			} PREPARATION AND CONSIDERATION OF STAR CHAMBER STOCKTAKING PAPER (CABINET OFFICE/GEF)
22		A.S: CH/EX RETURNS PARTS 3+4		
23		A.S: ST+ETS SUBMIT FIRST DRAFTS OF PARTS 3+4 TO F.P.		



DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE
(OCTOBER) 24		A.S. BRIEF: DIVISIONS RETURN DRAFT EXPENDITURE BRIEFS TO E.B. COPIED TO GEP AS APPROPRIATE. A.S.: FP SUBMIT FIRST DRAFTS OF PTS. 3 + 4 TO HMSO.	FIRST DRAFT OF PT. 1. (IAF) OF A.S. TO CHANCELLOR WITH SUBMISSION ON HANDLING OF PRESS NOTICE. EA COMMISSION CHARTS FROM CSO.	
25/26				
27	BIG BANG	A.S.: EA SENDS PART 1. (REVISED IN LIGHT OF CH/EX COMMENTS) TO F.P. + CH/EX. F.P. SEND PT. 1. TO HMSO.	CH/EX RETURNS FIRST DRAFT OF PT. 1. + RESPONDS TO SUBMISSION ON IAF HANDLING (MEETING IF NECESSARY).	GEP CONSIDER WHAT TREASURY PRESS NOTICES REQUIRED (IF ANY).
28		A.S.: GEP SENDS PT. 2. TO F.P. + CH/EX. F.P. SENDS PT. 2. TO HMSO.	CSO SUBMIT CHARTS TO E.A.	FURTHER STAR CHAMBER DISCUSSIONS.
29		A.S. BRIEF: REVISED DRAFT BRIEFS CIRCULATED TO CONTRIBUTORS (a.m.) AND RETURNED TO E.B. (p.m.): GEP SUBMISSION ON PRESENTATION OF OUTTURN.		
30		(SEE AIDE MEMOIRE)		CABINET OFFICE DRAFT LORD PRESIDENT'S PAPER. F.P. COMMISSION BRIEFING ON THE ECONOMY FOR 6 NOVEMBER CABINET. GEP COMMISSION BRIEFING ON PUBLIC EXPENDITURE FOR 6 NOVEMBER CABINET.
31.	F.P. COMMISSION MATERIAL FOR CHANCELLOR'S SPEECH IN THE ECONOMIC DEBATE.	(SEE AIDE MEMOIRE)		GEP DRAFT CABINET PAPER FOR CH/EX.



DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE
NOVEMBER				
1/2				
3	BRIEFING FOR FIRST ORDER QUESTIONS.			DIVISIONS RETURN CONTRIBUTIONS FOR BRIEFING FOR CABINET ON 6 NOVEMBER TO F.P. + G.E.P. GEP + F.P. SUBMIT BRIEFING FOR CABINET TO CHANCELLOR.
4				DIVISIONS AGREE DEPARTMENTAL REFERENCES IN [ORAL + PRINTED] STATEMENT.
5	[NEDC]			SPECIAL ADVISERS NOTE FOR BACKBENCHERS TO CHX. LORD PRESIDENT'S AND CHX'S PPS. CIRCULATED TO CABINET
6	FIRST ORDER QUESTIONS. DIVISIONS SUPPLY CONTRIBUTIONS TO FP FOR ECONOMIC SPEECH DEBATE. PROLOGATION.		FORECAST PUBLISHED	PROOFS OF WINTER SUPPLEMENTARIES TO PARLIAMENT; CHANCELLOR COMMENTS ON BRIEFING FOR CABINET.
7				REVISED BRIEF SUBMITTED TO CHANCELLOR. CHANCELLOR RETURNS BACKBENCHERS BRIEF.
8/9				FINAL SURVEY CABINET ON PUBLIC EXPENDITURE + NIC'S.
10	FP. CONSIDER NEEDED TO SUBMIT 1 <sup>st</sup> DRAFT OF SPEECH FOR ECONOMIC DEBATE TO CH/EX.			GEP. 1. FINALISE PUBLIC EXPENDITURE FIGURES.

(SEE AIDE MEMOIRE)





DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE
11				
12	RE-OPENING OF PARLIAMENT.			WINTER SUPPLEMENTARIES SUBMITTED TO PARLIAMENT.
13	START OF QUEEN'S SPEECH DEBATES.			
14	F.P. SUBMIT DRAFT OF SPEECH FOR ECONOMIC DEBATE ANGLO-FRENCH SUMMIT.	(SEE AIDE MEMOIRE)		
15/16				
17	CH/EX RETURNS SPEECH.			
18	F.P. RE-SUBMIT SPEECH.			
19	ECONOMIC DAY - (QUEEN'S SPEECH DEBATES).			



CONFIDENTIAL

PUP

FROM: MISS C EVANS  
DATE: 13 OCTOBER 1986

MR SCHOLAR

cc Principal Private Secretary  
Mr Sedgwick  
Mr Turnbull  
Mr Davies  
Mr Culpin  
Miss O'Mara  
Mr Gray  
Miss Noble  
Mr Pickford  
Mr Porteous  
Mrs Dunn  
Mr Short  
Mr Dyer  
Mr Kuczys  
Mr Rawlings  
Mr Woodall  
Mr Walters  
Mr Fray  
Mr Tyrie

**AUTUMN STATEMENT**

... I attach

- (a) the latest version of the Autumn Statement timetable. This updates the version circulated by Mr Walters on 19 September.
- (b) A plan "A" Aide Memoire which assumes publication of the Autumn Statement in the normal way on 6 November but with a built-in fall back plan in case Cabinet does not endorse the printed statement.
- (c) A plan "B" Aide Memoire which assumes an Oral Statement on 6 November together with release of the Forecast (photocopied) and a public expenditure table and with the full Autumn Statement being published on 13 November.

Under either scenario, unless DHSS are told otherwise now, the GAD report will be published on 13 November.

2. The plans are the same for both options until Friday 31 October by which time we hope to have Ministers' decisions on whether publication of the complete, printed document on 6 November is likely to be feasible.



3. I would be grateful if you and copy addressees could look at the three attachments and let me have any comments by close on Thursday of this week. Depending on the extent of comments, I will hold a meeting to go through the mechanics with the aim of circulating a revised version as soon as possible.

4. I should be grateful if copy recipients could give particular attention to the following points:

- (i) Are Office Services content that the reproduction load can be met under Plan "B"? In view of the tightness of the Plan "B" timetable the only packaging of the document will be by the Chancellor's Office on their limited distribution. IDT and Parliamentary Branch will receive the documents in batches.
- (ii) Under Plan "B" we may also need to keep open the option of having a dummy forecast available ie two versions of the Forecast press notice would need to be ready for photocopying on Wednesday November 5. Could Office Services establish whether they would be able to cope with this ie 1700 copies x 2 on the Wednesday morning. I should be grateful for an indication of what this option would cost.
- (iii) Under Plan "B" it will not be possible for CRU to start rolling off any copies of the backbenchers' brief before 3.15 on November 6 (unless it is ready in the morning). The task should be completed by CRU by 4pm. Is Mr Tyrie content with this and other references to the backbenchers' brief? Could he insert the timetable under Plan "B" please?
- (iv) Could GE check the reference to the Winter Supplementaries please?
- (v) Plan "B" assumes that the issue of the printed AS on the 13th will be a low key affair. Consequently it also assumes that it will not be necessary to arrange for messengers from outside bodies eg NEDC, CBI to collect copies from the Treasury. Rather the copies will be despatched by post at a pre-ordained time. Is this correct and at what time will the embargo be lifted? Could IDT confirm what arrangements would be needed for Press distribution on November 13 please?
- (vi) I am conscious that because of the rather different circumstances of Plan "B", there are currently few references to the necessary Parliamentary courtesies. Could Mr Dyer please insert entries where appropriate for example to confirm when the Speaker would need to be told that there will be an oral statement on the 6th (under both Plans "A" and "B")? Is it acceptable under Plan "B" for the Speaker to receive a copy of the oral statement as late as perhaps 3pm?
- (vii) Plan "B" will need to be amended to include the arrangements for informing the Press and outsiders (ie Bank, Revenue Departments, CBI etc) of the statement on the 6th. We are preparing a submission to the Chancellor about this.



- (viii) Similarly, under Plan "B", we shall need to establish despatch arrangements with the FCO for overseas copies of material. Could Mr Fray please advise on the lead time for setting up these arrangements.
- (ix) Are copy recipients content with the number of copies received and the subsequent distribution under each of the annexes? Could IDT complete Annex B of Plan "B" please?
- (x) Is Mr Allan content with the schedule for documents to be considered by the Chancellor please?



MISS C EVANS





FROM: A C S ALLAN  
DATE: 13 OCTOBER 1986

*psp*

CHANCELLOR

APPEARANCES BEFORE THE TCSC

Terence Higgins rang me again today to enquire about when the TCSC might take evidence from you and from officials on the Autumn Statement. (I had earlier told him, with your agreement, that the date of the Autumn Statement was likely to be about the same as last year - ie in early November).

2. His plan was for you to give evidence on Monday 17 November and for officials to give evidence a week later on Monday 24 November. The reason for doing it this odd way round is because Mr Higgins himself will be in India in the week of Monday 24 November (explaining how to run select committees!); he feels that he should be at the session when you give evidence. I told him Monday 17 was impossible for you because of the ECOFIN that day. He then proposed Tuesday 18 or Wednesday 19.

3. I have had a word with Peter Middleton and Michael Scholar who both feel that it would be a bad idea for you to appear before officials do: with officials first, you get some indication of the likely lines of questioning; and it would be odd to have officials being grilled about your replies.

4. If you agree, I will tell Mr Higgins that you feel the timing must be officials before yourself; and that suitable days must be worked out on that basis.

*I agree*

*ACSA*

A C S ALLAN

219-5014.



**SECRET & PERSONAL****SCORECARD**Copy No **3** of 14 Copies

FROM: A Turnbull

DATE: 16 October 1986

CHIEF SECRETARY+1

cc **Chancellor**

Sir P Middleton

Mr F E R Butler

Mr Anson

Mr Monck

Mr Scholar

Mr Gray

Mr Sedgwick

Mr Mowl

Mrs Dunn

Ch

Can discuss @ meeting on AS  
presentation on Wed @ 3pm

MSK.

AA

[? In memo n 996]

**PUBLIC EXPENDITURE IN REAL TERMS AND AS A PROPORTION OF GDP**

In presenting the outcome of the Survey we will want to show that the path for public expenditure meets certain tests:

- ✓ (i) that over the three years it is falling as a proportion of GDP;
- ✓ (ii) that even excluding privatisation proceeds it falls as a proportion between 1985-86 and 1986-87;
- (iii) that the increase in the planning total and GGE shown in 1986-87 is consistent with the Chancellor's wish to publish a PSBR outturn of £7½ billion;
- (iv) that the real increase in the planning total over the next three years is slower than over the preceding four since the last Election.

Some of these desiderata conflict. For example, to satisfy (ii) and (iii) a low outturn for 1986-87 is indicated, while to satisfy (iv) a high outturn is indicated.

2. I attach at Annex A the latest scorecard. For many programmes the outcome is either known or can be guessed at reasonably accurately. The two most uncertain are electricity and teachers' pay. For the purposes of the current exercise I have tried in

(1 am attacks  
to X. Paul n Y,  
wh. of them - if  
to support  
material  
to purposes of  
P&S?)

Also separate  
issue of how large  
an over-run we want  
to show (£1 billion: Robert;  
£1½ billion: FERB)

Slightly lower  
priority.

TURNBULL  
→  
CST  
16/10



both cases to err on the side of caution. In the case of teachers' pay I have assumed that a Main type settlement North and South of the Border is not phased. For electricity I have assumed the outcome in 1987-88 is around midway between the two positions. In practice you are hoping to do better on both.

3. The results are:

Implied additions to programmes (6 October figure in brackets)

7.8	8.1	10.7
(7.5)	(8.1)	(10.6)

With £5 billion of privatisation proceeds and Reserves of 3.5/5.0/6.5 the implied additions to the planning total are:

With 3/5/7	5.0	5.0	7.3
With 3/5 <sup>1/2</sup> /8	4.5	5.0	7.8
	4.5	5.5	8.8

Table B shows how this looks in real terms and as a proportion of GDP. Comparing the results with the various tests, the following emerges:

(i) GGE as a proportion of GDP falls significantly over the Survey period; but

(ii) while the proportion falls in 1986-87, including privatisation proceeds, it is unchanged excluding them;

(iii) in real terms, the planning total rises by 2.0/-0.2/1.3 per cent; an average over the three years of 1.1 per cent. The average excluding privatisation is 1.0 per cent. The figures are lower if we show GGE in real terms - hitherto only used for the ratio.

*cautions (ie gloomy)*

*Implies shading down over-pub 86-87 published it AS? (so as to get 44.8/44.7) (iii) note what we can read to 45/44 1/2.*



Average Annual Growth in Planning Total (GGE in brackets)

		<u>Including Privatisation</u>	<u>Excluding Privatisation</u>
1978-79 to 1982-83		1.4 (2.1)	1.5 (2.2)
1982-83 to 1986-87		1.1 (1.2)	1.8 (1.8)
1986-87 to 1989-90	Table B Table C	1.1 (0.7) 1.3 (4.0)	1.0 (0.7) 1.2 (0.9)

There are doubts, however, whether reserves of 3.5/5.0/6.5 rise quickly enough. They imply that at the next Survey only £1½ billion can be redistributed to programmes. The forecast indicates that a more sharply rising profile for the reserves is needed though it may be possible to get by with a smaller Reserve in 1987-88.

4. An alternative profile might be 3.0/5.5/8.0, with steps of £2.5 billion. The effects of this are shown in Table C. This has the advantage of reducing the increase in 1987-88, but increases the average over the three years to 1.3 (1.2 excluding privatisation).

5. There are still too many variables unsettled to take any final decisions - eg the outturn this year, the outcome of the Survey, and possibly also some variations in money GDP, but we can already identify a number of difficult points of presentation:

- (i) the GGE ratio in 1986-87. GEP are currently estimating that the planning total will be overshoot by £1.6 billion. We may be able to shade this down and shave a little off the gap between the planning total and GGE, but the scope is not large;
- (ii) there is a large increase in 1987-88 and a fall in 1988-89. This profile is heavily influenced by the



✓ path of the EC contributions, currently estimated at 1049/351/800. We need to examine the scope for shifting £100 or £200 million from 1987-88 in 1988-89;

Y | (iii) we need to be cautious about a Reserve as low as 3.0 in 1987-88. Already to be logged against this are the further education consequentials of teachers' pay, university dons' pay and possibly Airbus and Rover;

(iv) it is difficult to claim unambiguously that the three Survey years will show slower growth for expenditure than the recent past as the comparison varies with the basis used. Nevertheless, a growth rate averaging 1-1/4 per cent for the planning total, or 1 per cent for GGE looks soundly based.

✓

A TURNBULL

*If 3 is low low,  
low low G look  
@ 3 1/2 / 5 1/2 / 7 1/2*





SECRET

1986 SURVEY SCORECARD

EX ZV		1987-88 FORECAST OUTCOME				1988-89 FORECAST OUTCOME				1989-90 FORECAST OUTCOME			
		BASELINE	DEPT	FORECAST	HMT	BASELINE	DEPT	FORECAST	HMT	BASELINE	DEPT	FORECAST	HMT
		999,999	99,999.9	99,999.9	99,999.9	999,999	99,999.9	99,999.9	99,999.9	999,999	99,999.9	99,999.9	99,999.9
*	Defence	18,817	131.0	0	-300.0	18,990	148.0	12.0	-288.0	19,268	456.0	174.0	-276.0
	FCO-ODA	1,350	36.4	30.4	0.4	1,391	72.5	31.6	1.5	1,426	116.7	30.9	0.7
	FCO-Other	660	12.6	12.6	12.6	693	10.0	10.0	10.0	711	9.7	9.7	9.7
*	EC	1,149	-100.0	-100.0	-100.0	951	-600.0	-600.0	-600.0	975	175.0	175.0	175.0
*	IBAPIand CAP prefunded)	1,629	36.2	36.2	36.2	1,661	124.4	124.4	124.4	1,702	179.5	179.5	179.5
*	Domestic Agriculture	720	27.2	27.2	27.2	734	25.7	25.7	25.7	752	7.3	7.3	7.3
**	LA Capital	0	6.0	0	-6.0	0	6.0	0	-6.0	0	3.5	0	-3.5
*	Forestry	54	-0.6	-0.6	-0.6	56	-1.6	-1.6	-1.6	57	-2.0	-2.0	-2.0
*	DTI	953	13.0	13.0	13.0	940	28.5	28.5	28.5	964	3.0	3.0	3.0
*	ECGD	220	0.9	0.9	0.9	128	-18.3	-18.3	-18.3	131	-78.8	-78.8	-78.8
*	Energy	313	-43.0	-43.0	-43.0	323	-42.0	-42.0	-42.0	331	-55.0	-55.0	-55.0
*	Employment	3,947	0	0	0	4,132	0	0	0	4,235	0	0	0
**	Transport(CG LA Capital	2,057	16.0	16.0	16.0	2,087	28.0	28.0	28.0	2,154	28.0	28.0	28.0
		0	60.0	60.0	60.0	0	60.0	60.0	60.0	0	60.0	60.0	60.0
*	DOE-Hag (CG LA Capital	2,368	31.0	31.0	31.0	2,412	0	0	0	2,473	0	0	0
**		0	239.0	239.0	239.0	0	0	0	0	0	0	0	0
*	DOE-Other(CG LA Capital	880	20.0	20.0	20.0	907	13.0	13.0	13.0	930	0	0	0
**		0	50.0	50.0	50.0	0	0	0	0	0	0	0	0
*	DOE-PSA	-109	40.0	40.0	40.0	-112	40.0	40.0	40.0	-115	40.0	40.0	40.0
**	Home Off(CG LA Capital	1,148	61.4	61.4	61.4	1,185	40.8	40.8	40.8	1,215	62.2	62.2	62.2
		0	0.3	0.3	0.3	0	5.3	5.3	5.3	0	10.3	10.3	10.3
*	LCD	603	62.0	62.0	62.0	646	71.3	71.3	71.3	662	110.3	110.3	110.3
**	DES (CG LA Capital	3,588	102.0	102.0	102.0	3,658	126.0	126.0	126.0	3,750	151.0	151.0	151.0
		0	57.0	57.0	57.0	0	57.0	57.0	57.0	0	57.0	57.0	57.0
*	OAL	348	20.6	3.0	0	360	28.6	3.0	0	369	35.1	5.0	0
*	DHSS-Health LA Capital	15,937	460.5	265.0	69.5	16,617	408.0	212.0	16.0	17,032	772.0	575.0	378.0
		0	13.0	8.0	0	0	15.0	9.0	0	0	19.0	10.0	0
*	DHSS-Social Security	44,197	1,756.0	1,746.0	1,537.0	45,617	1,881.0	1,805.0	1,521.0	46,758	2,718.0	2,626.0	2,131.0
	Civil Supern.	1,314	-7.0	-7.0	-7.0	1,405	-7.0	-7.0	-7.0	1,440	-7.0	-7.0	-7.0
*	Scotland: block/non-bl excessLAcurr	4,435	40.2	16.3	-138.0	4,580	9.7	-4.5	-173.0	4,694	32.8	30.0	-200.0
		0	67.0	33.0	0	0	66.0	33.0	0	0	58.0	29.0	0
*	Wales: non-block excessLAcurr	1,759	0	-1.1	-5.0	1,819	0	-2.1	-7.0	1,864	0	0	-7.0
		0	95.0	48.0	0	0	97.0	49.0	0	0	98.0	49.0	0
*	N Ireland - excess LA current/RFCs	4,691	-54.4	-54.4	-54.4	4,819	-36.1	-36.1	-36.1	4,939	-18.4	-18.4	-18.4
		0	26.0	26.0	26.0	0	19.0	19.0	19.0	0	21.0	21.0	21.0
	Territorial Consequences												
**	La Capital	0	88.0	87.0	85.0	0	28.0	27.0	25.0	0	30.0	28.0	26.0
*	Other	0	176.0	132.0	69.0	0	179.0	135.0	61.0	0	267.0	221.0	147.0
*	Chancellor's Depts(excl- LAPR/MIRAS)	2,046	230.0	129.0	100.0	2,073	288.3	189.0	150.0	2,125	284.4	229.0	175.0
		0	72.0	72.0	72.0	0	75.0	75.0	75.0	0	98.0	98.0	98.0
*	Other Depts	492	23.0	23.0	23.0	505	27.0	27.0	27.0	518	29.0	29.0	29.0
*	DPP/CPS	0	40.0	40.0	40.0	0	50.0	50.0	50.0	0	55.0	55.0	55.0
*	NAT INDS: - Agreed	0	-22.6	-22.6	-22.6	0	-111.5	-111.5	-111.5	0	-229.9	-229.9	-229.9
*	- IFR memo	277	13.9	13.9	13.9	276	-12.9	-12.9	-12.9	283	-56.4	-56.4	-56.4
*	- Coal	0	150.0	75.0	5.0	0	265.0	150.0	95.0	0	200.0	100.0	-20.0
*	- ElecE/W	0	450.0	250.0	100.0	0	171.0	170.0	50.0	0	427.0	0	-150.0
*	- ScotElec	0	90.0	90.0	90.0	0	107.0	107.0	107.0	0	-43.0	-43.0	-43.0
*	LA current inside ring fence	27,031	3,434.0	3,434.0	3,434.0	27,043	4,375.0	4,375.0	4,375.0	27,043	5,160.0	5,160.0	5,160.0
*	Teachers	0	655.0	675.0	0	0	895.0	800.0	0	0	1,085.0	800.0	0
*	Private Proceeds	-4,750	0	0	0	-4,750	0	0	0	-4,750	0	0	0
*	Reserve	6,016	0	0	0	7,858	0	0	0	9,600	0	0	0
*	Adjustment	-262	0	0	0	-267	0	0	0	-279	0	0	0
=	IMPLIED ADDITIONS TO PROGRAMMES	143,878	8,674.6	7,796.5	5,816.8	148,737	9,011.7	8,072.6	5,899.1	153,257	12,368.3	10,672.7	7,967.0
=	LA Cap Bids	0	500.3	493.3	485.3	0	156.3	149.3	141.3	0	160.8	155.3	149.8
	Memo Item (Airbus/space/Rover)			555				110				170	

Adjustment excludes double counting of DAFS and WOAD expenditure



	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
<b>A. CASH £ billion</b>												
PLANNING TOTAL	65.7	77.6	92.6	104.0	113.3	120.3	129.6	133.7	140.7	148.9	153.7	160.5
excluding												
privatisation proceeds	65.7	77.9	93.0	104.4	113.8	121.4	131.7	136.3	145.5	153.9	158.7	165.5
proceeds and strike	65.7	77.9	93.0	104.4	113.8	121.4	129.1	135.5	145.5	153.9	158.7	165.5
adjustments (1)												
GENERAL GOVERNMENT												
EXPENDITURE	74.6	89.6	108.3	120.1	132.5	140.1	150.0	158.9	165.5	173.6	179.3	187.2
excluding privatisation												
proceeds	74.6	90.0	108.7	120.6	133.0	141.3	152.1	161.5	170.3	178.6	184.3	192.2
proceeds and strike	74.6	90.0	108.7	120.6	133.0	141.3	149.5	160.7	170.3	178.6	184.3	192.2
adjustments												
<b>B. GDP</b>												
GDP deflator	56.2	65.7	78.0	85.8	91.8	95.9	100.0	106.0	109.2	113.3	117.2	120.8
GDP deflator - percentage												
change		16.9	18.8	10.0	7.0	4.5	4.3	6.0	3.0	3.8	3.4	3.0
GDP at market prices	172.7	207.0	235.6	259.4	283.5	305.7	326.8	360.5	380.2	406.8	431.2	454.9
<b>C. REAL TERMS (1984-85=100)</b>												
£ billion												
PLANNING TOTAL	117.0	118.1	118.8	121.2	123.5	125.5	129.6	126.1	128.8	131.4	131.1	132.9
excluding												
privatisation proceeds	117.0	118.7	119.3	121.8	124.1	126.7	131.7	128.6	133.2	135.8	135.4	137.0
proceeds and strike	117.0	118.7	119.3	121.8	124.1	126.7	129.1	127.9	133.2	135.8	135.4	137.0
adjustments												
GENERAL GOVERNMENT												
EXPENDITURE	132.7	136.5	138.9	140.0	144.4	146.1	150.0	149.9	151.6	153.2	153.0	155.0
excluding privatisation												
proceeds	132.7	137.1	139.4	140.6	144.9	147.3	152.1	152.4	155.9	157.6	157.3	159.1
<b>D. PERCENTAGE YEAR ON YEAR</b>												
CHANGE IN REAL TERMS												
PLANNING TOTAL		1.0	0.6	2.0	1.9	1.6	3.3	-2.7	2.2	2.0	-0.2	1.3
excluding												
privatisation proceeds		1.5	0.5	2.1	1.8	2.1	4.0	-2.4	3.6	2.0	-0.3	1.2
proceeds and strike		1.5	0.5	2.1	1.8	2.1	1.9	-1.0	4.2	2.0	-0.3	1.2
adjustments												
GENERAL GOVERNMENT												
EXPENDITURE		2.8	1.8	0.8	3.1	1.2	2.7	-0.1	1.1	1.1	-0.2	1.3
excluding privatisation												
proceeds		3.3	1.7	0.9	3.1	1.7	3.2	0.2	2.3	1.1	-0.2	1.2
<b>E. PERCENTAGE OF GDP</b>												
GENERAL GOVERNMENT												
EXPENDITURE	43.2	43.3	46.0	46.3	46.7	45.8	45.9	44.1	43.5	42.7	41.6	41.2
excluding privatisation												
proceeds	43.2	43.5	46.1	46.5	46.9	46.2	46.6	44.8	44.8	43.9	42.7	42.3
proceeds and strike	43.2	43.5	46.1	46.5	46.9	46.2	45.7	44.6	44.8	43.9	42.7	42.3
adjustments												

(1) Figures for privatisation proceeds and strike adjustments are on the attached sheet.



	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
<b>A. CASH £ billion</b>												
PLANNING TOTAL	65.7	77.6	92.6	104.0	113.3	120.3	129.6	133.7	140.7	148.4	154.2	162.0
excluding privatisation proceeds	65.7	77.9	93.0	104.4	113.8	121.4	131.7	136.3	145.5	153.4	159.2	167.0
excluding privatisation proceeds and strike adjustments (1)	65.7	77.9	93.0	104.4	113.8	121.4	129.1	135.5	145.5	153.4	159.2	167.0
GENERAL GOVERNMENT EXPENDITURE	74.6	89.6	108.3	120.1	132.5	140.1	150.0	158.9	165.5	173.1	179.8	188.7
excluding privatisation proceeds	74.6	90.0	108.7	120.6	133.0	141.3	152.1	161.5	170.3	178.1	184.8	193.7
excluding privatisation proceeds and strike adjustments	74.6	90.0	108.7	120.6	133.0	141.3	149.5	160.7	170.3	178.1	184.8	193.7
<b>B. GDP</b>												
GDP deflator (1984-85=100)	56.2	65.7	78.0	85.8	91.8	95.9	100.0	106.0	109.2	113.3	117.2	120.8
GDP deflator - percentage change		16.9	18.8	10.0	7.0	4.5	4.3	6.0	3.0	3.8	3.4	3.0
GDP at market prices	172.7	207.0	235.6	259.4	283.5	305.7	326.8	360.5	380.2	406.8	431.2	454.9
<b>C. REAL TERMS (1984-85=100) £ billion</b>												
PLANNING TOTAL	117.0	118.1	118.8	121.2	123.5	125.5	129.6	126.1	128.8	131.0	131.6	134.1
excluding privatisation proceeds	117.0	118.7	119.3	121.8	124.1	126.7	131.7	128.6	133.2	135.4	135.8	138.2
excluding privatisation proceeds and strike adjustments	117.0	118.7	119.3	121.8	124.1	126.7	129.1	127.9	133.2	135.4	135.8	138.2
GENERAL GOVERNMENT EXPENDITURE	132.7	136.5	138.9	140.0	144.4	146.1	150.0	149.9	151.6	152.8	153.4	156.2
excluding privatisation proceeds	132.7	137.1	139.4	140.6	144.9	147.3	152.1	152.4	155.9	157.2	157.7	160.3
<b>D. PERCENTAGE YEAR ON YEAR CHANGE IN REAL TERMS</b>												
PLANNING TOTAL		1.0	0.6	2.0	1.9	1.6	3.3	-2.7	2.2	1.7	0.5	1.9
excluding privatisation proceeds		1.5	0.5	2.1	1.8	2.1	4.0	-2.4	3.6	1.6	0.3	1.7
excluding privatisation proceeds and strike adjustments		1.5	0.5	2.1	1.8	2.1	1.9	-1.0	4.2	1.6	0.3	1.7
GENERAL GOVERNMENT EXPENDITURE		2.8	1.8	0.8	3.1	1.2	2.7	-0.1	1.1	0.8	0.4	1.8
excluding privatisation proceeds		3.3	1.7	0.9	3.1	1.7	3.2	0.2	2.3	0.8	0.3	1.7
<b>E. PERCENTAGE OF GDP</b>												
GENERAL GOVERNMENT EXPENDITURE	43.2	43.3	46.0	46.3	46.7	45.8	45.9	44.1	43.5	42.6	41.7	41.5
excluding privatisation proceeds	43.2	43.5	46.1	46.5	46.9	46.2	46.6	44.8	44.8	43.8	42.9	42.6
excluding privatisation proceeds and strike adjustments	43.2	43.5	46.1	46.5	46.9	46.2	45.7	44.6	44.8	43.8	42.9	42.6

(1) Figures for privatisation proceeds and strike adjustments are on the attached sheet.



and I shall be announcing my conclusions in the Budget.

APRT: Draft for oral statement

The fall in oil prices has, inevitably, led to a cutback of activity in the North Sea. There is naturally some concern about the impact on future development and on <sup>the</sup> offshore supplies industry <sup>ies</sup> in Scotland and the North East. Against this background the Government is conducting a review of the North Sea fiscal regime. In the meantime, however, I am proposing, as an initial step, an adjustment to the arrangements for repayment of Advance Petroleum Revenue Tax, to take account of the fact that, with lower oil prices, <sup>the associated</sup> PRT ~~tax~~ liabilities will arise much later than expected, or not at all. The details of this change, which will require legislation early in the next Session, are set out in a Press Notice published today by the Inland Revenue. These new arrangements will increase the PSBR this year by about £300 million but there will be corresponding reductions in later years.





FROM: N G FRAY  
DATE: 20 OCTOBER 1986

PS/SIR P MIDDLETON

cc Mr Allan

**AUTUMN STATEMENT: SCORECARD 'NEED TO KNOW' LIST**

I should be grateful if you could seek permission for Mrs Rosa Modos to be added to the scorecard 'need to know' list. This will enable scorecard material to be typed in the Private Office when Mrs Moody is off duty or on sick leave.

*Nigel Fray*  
N G FRAY

*Mr Fray — cc Mr Turnbull  
Mrs Denna  
Mr M Lees*

*OK - do you have any more  
bits while we're at it?*

*[Signature]*

21/10



SECRET AND PERSONAL



*BF in AS  
presentation meets  
Wde (Wednesday  
3.00)*

FROM: A C S ALLAN  
DATE: 20 OCTOBER 1986

PS/CHIEF SECRETARY

cc: Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Sedgwick  
Mr Turnbull  
Mr Culpin  
Mr Gray  
Mr Mowl  
Mrs Dunn

## PUBLIC EXPENDITURE IN REAL TERMS AND AS A PROPORTION OF GDP

The Chancellor has seen Mr Turnbull's minute to the Chief Secretary of 16 October. He would like to discuss this at either tomorrow's meeting or at the meeting on Autumn Statement presentation on Wednesday afternoon. Before then, he would be grateful to know when the potential claims against the reserve in 1987/88 (especially those described in paragraph 5(iii)) are expected to emerge (eg before the AS or before the PEWP?).

*↑  
Not yet arrived.  
Will chase Wed AM  
AA*

*ACSA*

A C S ALLAN



**SECRET**

FROM: M C SCHOLAR  
 DATE: 20 OCTOBER 1986

**CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr F E R Butler  
 Mr Sedgwick  
 Mr Turnbull  
 Mr Gray  
 Miss O'Mara  
 Mr Culpin  
 Miss C Evans  
 Mr Cropper  
 Mr Tyrie

**AUTUMN STATEMENT**

... I attach a draft of your oral statement. This draft is based on contributions by Messrs F E R Butler/Turnbull, Sedgwick, and Miss Noble.

2. Sir Peter Middleton took a meeting this morning (with Sir Terence Burns, Mr F E R Butler and others) on the draft. The feeling was that, although the draft was a reasonable first shot at a positive and upbeat presentation, you may think that a rather different tone might be required - one with an element of regret for the increases in expenditure, and the message that they will have to be financed, and in a sound, non-inflationary, way. If so you might consider a passage like the following, say, near the end of the Statement:-

Mr Speaker, at the outset of this year's Public Expenditure Survey the government was faced with very large excesses in expenditure in areas - such as local authorities - which are not directly under government control. It would not have been desirable or appropriate, in the government's view, to have sought to have offset these excesses by deep cuts in priority programmes. Accordingly I have announced today increases in public expenditure to allow realistic provision to be made for local authorities and demand-led programmes, within planning totals tightly constrained by what the government judges to be affordable.

*implies education not priority?*



3. If you prefer this approach, consequential changes will be needed throughout the Statement, and the hint about sound finance included near the very end of the Statement.

4. Two more points on the draft

(a) depending on the numbers we may want to include some references to public expenditure growth and the GGE percentage on a privatisation proceeds-exclusive basis ✓

(b) we are looking to see if we can produce an additional paragraph in the public expenditure section on the elements in total public expenditure which have gone down (in some sense) as a result of the Survey. EC contributions provide a good beginning; Mr Turnbull is considering whether it and the other examples could make up a plausible paragraph.

*D. Cram*

p.p M C SCHOLAR



SECRET

## DRAFT ORAL AUTUMN STATEMENT (consistent with Plan B)

1. With permission Mr Speaker I should like to make a statement.
2. As the House will not be sitting ~~next~~ week, it is not possible this year to follow in every detail the usual timetable for publication of the Autumn Statement. But I thought it would be for the convenience of the House if I were to make a full oral statement today about the Government's public expenditure decisions, its proposals for next year's national insurance contributions, and the forecast of economic prospects for 1987 required by the Industry Act 1985. The printed Autumn Statement, in its usual form, will be laid before the House when we come back next week.

The outturn for 1986-87

3. I deal first, as usual, with the current year, 1986-87. In the public expenditure White Paper published last January, the planning total for this year was put at £139 billion. My best estimate of the prospective outturn is an excess of just over 1 per cent, at £140.5 billion. The main factors behind this have been the current spending of local authorities, whose budgets indicated an increase in spending of [8 per cent] over last year, an excess of £3 billion over the provision in the White Paper; local authorities' capital spending, which is now estimated to be running at  $\frac{1}{2}$  billion over plans; and an extra £1 billion on social security.

SECRET



4. Revenue has also been running ~~some~~ <sup>what</sup> ahead of the forecast I made in the budget. In March it was already clear that buoyant demand in the non-North Sea economy, and an increasingly profitable corporate sector, were generating additional tax revenues which would more than offset the loss of revenue from the North Sea. That buoyancy is set to continue, both this financial year and next. Taking account of further increases in government receipts this year, which will in large measure offset the increased expenditure, I now estimate the outturn for the PSBR in the current financial year at [ $\pounds 7\frac{1}{2}$ ] billion compared with the estimate of  $\pounds 7$  billion made at the time of the Budget. Public sector borrowing is, then, running broadly on the track I set for it at budget time.

#### Public expenditure plans 1987-88 to 1989-90

5. I turn now to our public expenditure plans for the next three years, 1987-88 to 1989-90.

6. During the 1960s and 1970s, public expenditure grew by around  $3\frac{1}{2}$  per cent a year, <sup>in real terms</sup> faster than the economy as a whole. As a result, public spending came to represent a greater and greater proportion of GDP. With that, as the House and the country know to their cost, the burden of taxation and public borrowing inexorably increased.

7. Our objective has been to reverse these trends. The borrowing requirement is back at the level last seen in the early 1970s. In each of the last five budgets taxes have been reduced. From its peak of  $46\frac{1}{2}$  per cent in 1982-83, Government expenditure has fallen as a proportion of GDP to an estimated [ $43\frac{1}{2}$ ] per cent in 1986-87.

*Rounding  
may be  
conceded here.*



8. Our approach to expenditure planning has been to relate spending to what the nation can afford to finance, whether by taxation or borrowing. To achieve our objective of bringing taxes down and keeping borrowing low in accordance with our medium-term financial strategy, it is essential that public spending continues to fall as a proportion of GDP. The plans I am about to announce will take the ratio down from [43½] per cent this year to [41½] per cent in 1989-90, back to the level of the early 1970s.

9. Within this constraint we have sought to achieve three things:
- to establish priorities, allowing us to increase spending on certain vital services such as education, health and the renovation of public sector housing;
  - to make realistic provision for those areas such as local authority current expenditure which are not directly under government control, and the so-called demand-led programmes such as social security;
  - over the whole range of spending to secure greater value for money so that better services are delivered from whatever resources are made available.

10. Within the constraints of this approach, and with the prospect of steady and continuing growth of national output over the next three years, we have felt able to make some increase in the previously announced planning totals of £144 billion in 1987-88 and £149 billion in 1988-89. The revised planning totals for the next three years will be £x billion, £y billion and £z billion. Compared with the forecast outturn for 1986-87, these totals represent an average growth of [just over 1 per cent] per year in real terms, well within the prospective growth of the economy.

Probably OK,  
but a bit  
dangerous  
(education is 50%  
of LA cost).  
Just show will no  
don't return to  
att adv. ✓

It's  
for  
f's



SECRET

11. These totals incorporate estimates for the proceeds of privatisation. Last year I raised the estimate of these proceeds to £4½ billion in each year, a figure which I expect to be achieved this year. Although this programme is now moving ahead strongly, I have not thought it right to make any further substantial adjustment to this estimate, which has been rounded to £5 billion in each year. *This sound a bit odd. Better to say covered a little ✓*

12. For defence, our plans remain unchanged though in 1989-90 the cost of the Falklands Garrison, now down to £130 million a year, will be met from within the Defence budget. The benefit of the heavy re-equipment programme of recent years and the increasing savings from greater efficiency will ensure that our improved defence capability is sustained.

13. [ In addition to enjoying the benefits of substantially higher receipts from council house sales, ] housing investment will be increased by £240 million in 1987-88. This will sustain the rising trend of spending on renovation and improvements.

14. Spending on the health service will be increased by £x million a year. Combined with the resources increasingly being generated by greater efficiency, this will not only meet the growing demands on the health service but will allow it to improve services.

15. The largest single increase is for local authorities whose current spending, including the provision for teachers' pay, is now put next year at £4 billion above previous provision. In subsequent years this spending is projected to grow more or less in line with inflation.

*by [unclear] ✓*

*Should be expanded?*

SECRET



SECRET

16. In addition to the very substantially increased expenditure on schools contained within local authority current spending, there will be additional provision for universities of £60 million in 1987-88 and £70 million in 1988-89. This fulfils the undertaking by the former Secretary of State for Education and Science to increase support for universities as part of a major programme to improve efficiency and raise standards. Grants to the Research Councils will be increased by £20 million a year.

17. £1 $\frac{3}{4}$  billion has been added to next year's provision for social services. [Less than a third of this increase is attributable to changed economic assumptions about prices and unemployment.] Most [of the rest] represents greater take-up of existing benefits.

18. Finally the plans will contain substantial and rising reserves of £a, b and c million. As I have made clear, additions have been made, from 1987-88 onwards, to local authority current and capital expenditure and to social security spending - the 3 programmes which, in the current year have put most pressure on the Reserve. This has been necessary to ensure realistic provision in each of the next 3 years. Although, in the current year, net increases in other programmes has been modest, I have nevertheless judged it prudent to include substantial Reserves for the next 3 years.

19. A summary table setting out the figures for each programme will be available in the Vote Office when I sit down and further details of these and other changes will be contained in the printed version of the Autumn Statement which will be published as soon as the House returns. In addition, full details together with

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SECRET

information on running costs and manpower, will be given in the public expenditure White Paper early in the New Year.

KEY PARA MISSING

20. 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 uprating which my Rt Hon Friend the Secretary of State for Social Services announced on 22 October.

*This is all just a sighting shot. To be discussed @ a separate meeting.*

21. The lower earnings limit will be increased next April to £39 a week. The upper earnings limit will be similarly raised, to £295 a week, an increase of just  $3\frac{1}{2}$  per cent on the present limit of £285 a week. [That is the maximum permissible increase within the existing legislation.]

22. The limits for the reduced rates of contribution which I announced in the 1985 Budget, as a measure to boost lower paid employment, will also be increased in April. The limit for the 5 per cent and 7 per cent rates will be raised to £65 and £105 respectively. The contribution rate for employers will be raised from £140 a week to £150. In each case, the increase is rather more than the projected increase in earnings.

23. The Treasury supplement will be reduced from 11 per cent of contribution to 9 per cent. However, for the fourth year running, there will be no change in Class I contribution rates. Despite the growing number of pensioners and the substantial increase in social security spending which I have already announced, the main rates

SECRET



will remain at 9 per cent for employees and 10.45 per cent for employers.

24. My Rt Hon Friend the Secretary of State for Social Services will announce details of these proposals [this afternoon] and will [shortly] lay before Parliament the necessary order and the accompanying report by the Government Actuary.

25. Finally I turn to the Industry Act Forecast.

26. Developments in the economy this year have in many ways been similar to those in the other large industrial economies. The world economy has been through a difficult phase of adjustment to a number of major shifts in relative prices - including the dollar, commodity prices in general and the oil price in particular. Exports by the major economies to OPEC and other developing countries have been weak, and this has led to <sup>a weakening of</sup> some stagnation in industrial output, <sup>in Wt to UK & elsewhere</sup> of which the United Kingdom has experienced its share. But total output growth in the major industrial countries in 1986 has generally been running [somewhat] ahead of growth in industrial output; here at home output as a whole has been about 2-2½ per cent above last year's level, compared with the Budget forecast of 3 per cent. 1986 has been the fifth successive year of growth, and has seen the start of the sixth, with growth averaging about [3 per cent] a year.

? old  
drafting  
(calendar  
forward years)

27. Domestic demand has risen rapidly this year, as expected at the time of the Budget. Inflation has fallen even more sharply than forecast, to levels not seen in the this country for almost



SECRET

20 years. I now expect it to rise slightly above the current level, to  $3\frac{1}{4}$  per cent in the fourth quarter of this year and to  $3\frac{3}{4}$  per cent in the fourth quarter of 1987. Excluding the effects of mortgage rates it is now a little above 3 per cent and on this basis I expect it to <sup>remain at about that level</sup> be  $3\frac{1}{4}$  per cent in the fourth quarter of this year; and  $3\frac{1}{4}$  per cent in the fourth quarter of next year. <sup>over the next 12 m.</sup>

28. Employment has continued to rise; since the 1983 general election a million new jobs have been created, and total employment has risen for thirteen successive quarters. Unemployment may at last have begun to fall - although it must be some time before we will know if the very welcome falls in the last two months are the beginning of a new and sustained trend.

29. Looking ahead to 1987 the prospects are generally encouraging. There are now signs of buoyant domestic demand in most of the major industrial countries, and, with the fall in demand from OPEC and other developing country markets coming to an end we may expect a more vigorous and assured growth in world output and trade. Over recent years, in sharp contrast to the previous pattern, we have maintained our volume share of world trade in manufactures, and it is now clear that our exports have resumed the vigorous growth they were showing before the pause in activity began.

30. British industry is now in an exceptionally favourable position to take advantage of the strengthening of the world economy. The adjustment of the sterling exchange rate to a lower level of oil prices has now taken place, and our exports are now more competitive than they have been for many years. Full

*the par-  
lyt*

SECRET



"growth" is, I think, as forecast, but from a lower base.

SECRET

adjustment of our trade to all these shifts in relative prices will, of course, take time, and, taking account of the much slower than forecast growth in our export markets, I now expect the current account of the balance of payments to be in approximate balance this year, with a deficit of some £1½ billion in 1987.

— Can't avoid altogether mentioning imports!

31. Although output in the North Sea is likely to fall next year the growth of non-oil exports is, as I have indicated, expected to run more strongly in 1987. Domestic demand is likely to grow at about the same rate in 1987 as this year. The favourable prospects for industry should mean a good investment performance. All in all I expect 1987 to be a year of balanced growth at a sustainable pace, with output as a whole rising by almost 3 per cent.

32. The full text of the Autumn forecast is to be published today by the Treasury and will be included as usual in the printed Autumn Statement next week. The forecast is now available in the Vote Office.

**PERORATION**

33. 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 rising living standards. That combination has eluded governments of both parties for many years. We have brought it about by sticking to policies of free markets and sound money. We shall continue to stick to those policies.

SECRET



SECRET

SCHOLAR  
→ CH/EX  
2010FROM: M C SCHOLAR  
DATE: 20 OCTOBER 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr F E R Butler  
Mr Sedgwick  
Mr Turnbull  
Mr Gray  
Miss O'Mara  
Mr Culpin  
Miss C Evans  
Mr Cropper  
Mr Tyrie**1986 AUTUMN STATEMENT: PRESENTATION**

We have been reviewing the arrangements for the Autumn Statement in the light of the latest Star Chamber developments and prospects. In the course of this several points have arisen on which we would be grateful for guidance.

**A TWO-STAGE OR ONE-STAGE PROCESS?**

2. The assumption underlying the present plan - oral statement, public expenditure summary table and the press notice on the Forecast on 6 November, printed Autumn Statement on 13 November - is that it will not be possible to send the complete Autumn Statement document to the printers ahead of the public expenditure Cabinet on 6 November. That remains the most likely outcome (it would be surprising if spending colleagues still in dispute did not use up all the available negotiating time). But we now think that there might be a chance that by close on Friday 31 October the public expenditure outcome would be sufficiently certain to enable us to produce a complete printed Autumn Statement for endorsement by the Cabinet on the 6th with publication immediately after your oral statement on that day. This looks a possibility because the number of unresolved programmes is less than last year and the issues at stake rather less complex.



3. The options for presenting the decisions reached at Cabinet on 6 November carry a number of potential advantages and risks. If in the light of the considerations discussed below you felt it desirable to aim for publication of the printed document on the 6th we would need to work to a timetable which left open two options:

(i) Plan A: oral statement and publication of printed document on 6 November but with fall back arrangements (as for Plan B) in case Cabinet fails to endorse some aspect of the printed document.

(ii) Plan B: oral statement and publication of public expenditure table and Forecast press notice on 6 November, printed document on 13 November.

To meet the printing timetable we would need to decide by Friday 31 October whether we had reached agreements which were likely to receive Cabinet endorsement. After that date, any changes would need to be settled in a very tight timescale for inclusion in the final proof to go to the printer on Tuesday 4 November.

4. Publishing the printed document on the 6th has a number of advantages. It would avoid the complications of a two-stage process, look more orderly and would allow the printed Autumn Statement to be published at its normal time in relation to the oral statement. Even though the chances of our being able to achieve this result may look remote at times over the coming weeks there is a case for laying plans, since we would later regret it if in the event we knew we could have achieved this outcome but failed only because we had not laid plans to bring it about.

5. However, publication of the printed document on 6 November carries some risks. Since commentators will guess that the document was finalised some days before 6 November it may appear to have pre-empted Cabinet's decisions. Some of your colleagues may feel that publication of a printed document on the same day as



Cabinet would indicate to the world that you had presented them with a fait accompli which denied them the opportunity of a proper discussion of the implications of the revised planning totals and ruled out the option of looking again at individual programmes or challenging the Treasury's proposals for the totals or for the Reserves. Although it seems unlikely that other Ministers will identify any generally acceptable alternative to the Treasury's proposals there will clearly be scope for allegations of Treasury stage management if we issue a printed document which must have been produced before Cabinet. Although in reality such allegations would not be justified (since the printed document would have been prepared on the basis of agreement with individual Ministers and would be released only with Cabinet agreement) they could be very damaging.

6. Finally there is the question of the Industry Act Forecast. Sir Terence Burns is keen to leave open the possibility of revising the Forecast at the last possible moment and issuing something which looks more up to date and rapidly produced than a printed document. These considerations clearly point to plan B although in practice the timing difference is not very great (printed document finalised Tuesday 4 November, photocopied version finalised Wednesday 5 November).

V little  
new  
info  
arrives  
in that  
period  
- no  
major  
statements

7. Before his departure to Paris, Sir Peter Middleton took a meeting (with Sir Terence Burns, Mr F E R Butler and others) about the merits and risks of Plans A and B. The balance of judgement was that Plan A ran the risk of appearing to take Cabinet's views for granted on an issue of major importance - the raising of the planning totals - and that we should therefore stick to the 2 stage process previously agreed.

#### TIMING OF THE ANNOUNCEMENT OF 6 NOVEMBER STATEMENT

8. We have so far not said anything publicly or to departments about the timing of the Statement. But as we get nearer it will become progressively more difficult to hold this line. Departments will want to know when they can publicise the outcomes for their programmes (something we are normally encouraging them to do); the



media will also want to make arrangements for coverage; and Parliament will need some warning. It would be helpful, therefore, if we could tell Departments and the outside world (they are likely to know this anyway on past form) that there will be a public expenditure Cabinet on 6 November and that if Cabinet reaches decisions at the meeting these will be announced - given the Parliamentary timetable - that afternoon in a Statement. Normally we would not want to announce the date of the Statement until after the final Cabinet in order to leave open the possibility that Cabinet might need two meetings. This year we do not really have the option of two meetings. Once the full arithmetic has been exposed to Cabinet we cannot allow a meeting to fail to come to a conclusion. This indicates that we have little to lose by announcing that there will be a statement on 6 November.

9. We may also have something to gain. If we are able to warn departments in advance, they will be able to have Press Notices ready, presenting the outcome of the Survey for their programmes as positively as possible. We can also avoid a row in Parliament if the Opposition are not required - as they otherwise might be - at the last moment to cancel speaking engagements to be in the House. Finally, we can avoid the impression of an over-hasty statement by announcement in advance. If you do decide to give advance warning, this could be done at Cabinet the previous Thursday (defusing any possible annoyance on the part of the colleagues that the Treasury was announcing the date of the Autumn Statement before Cabinet's - only - discussion of the Survey).

10. This raises a further issue of procedure. On past form the Lord President will inform Cabinet colleagues of the outcome of the Star Chamber's deliberations for individual programmes with a paper circulated on 3 or 4 November. You may think it right yourself to circulate, either then or shortly after, a brief note on the implications of these decisions for the planning totals. This could be a paper without numbers, which you could follow up with specific proposals at Cabinet on 6 November either orally or through a further note distributed at the meeting. In this way you could give colleagues some advance warning of the significance of the proposals they were being asked to consider without circulating

Let's get a copy

What?



beforehand the precise numbers. This would help ward off any subsequent criticism that colleagues had not been adequately consulted. You may also wish to consider, nearer the time, whether you will want to depart from your usual practice for this Cabinet and circulate a paper on the economic prospects.

### Conclusion

11. We seek your views on whether we should

(a) aim for publication of the printed Autumn Statement document on 6 November holding in reserve the option of issuing only a public expenditure table and Forecast press notice (Plan A) or

✓ (b) - the course we recommend - rule out Plan A and stick to Plan B.

12. We also seek your agreement that on October 30 Cabinet should be told of the arrangements for a public expenditure Cabinet and the likelihood of a statement in the House on 6 November, and that after Cabinet on 30 October we inform the outside world of this in as low-key a manner as possible.

13. You may also like to let us have your immediate reaction to the suggestions on Cabinet papers canvassed in paragraph 10 above.

*D. Crane*

PP M C SCHOLAR



FROM: ROBERT CULPIN  
DATE: 21 OCTOBER 1986

CHANCELLOR

*Ch*  
*This is certain*  
*20/10/86*

- cc CST
- Sir P Middleton-or
- Sir T Burns
- Mr F E R Butler
- Mr Scholar
- Mr Turnbull
- Miss O'Mara
- Mr Allan
- Mr Hudson
- Mr Cropper
- Mr Tyrie

**AUTUMN STATEMENT MEETING, 22 OCTOBER: TWENTY QUESTIONS**

Overall picture

1. Do you accept Mr Scholar's recommendations of 20 October that we should

*Yes*

a. rule out now any attempt to publish a printed Autumn Statement on 6 November; and *(ie go for Plan B not Plan A)*

*Discuss*

b. plan to **commit ourselves publicly** at the end of <sup>*(this)*</sup> the month to an Oral Statement on that date?

CULPIN  
→  
CH/EX  
21/10

2. Are we agreed on the **main lines of presentation**?

*See also*

- *(Add in all the part below also)*  
- Expenditure a declining proportion of GDP

*But v close between 85-86 and 86-87.*

*Qu 4*

*Is this more than "greater realism"?*

- Aligning presentation/planning with track record/likely outcome

*Qu 9?*

*Jack Straw/LA spending problem.*

- Priority for education, health, housing, law and order

*Qu 6 etc.*

- Faster, better balanced growth next year

- Low inflation

*Qu 15*  
*217*

*W. H. S. S.*



3. Is Mr Scholar's **draft Oral Statement** (20 October) on broadly the right lines? — *ie is it too buoyant / could sound complacent? w/ ex, borrow & tax*

Detailed briefing: Public Expenditure

4. How do we frame the **general policy**?

- Declining proportion of GDP follows 1979 Manifesto: "The State takes too much of the nation's income; its share must be steadily reduced".

- Major achievement has been to reduce real rate of growth

*(Expenditure) (GDP) (ratio) 6*

- No point deluding ourselves with targets ("steady in real terms") that are too tight *But need to explain why they are too tight.*

5. How do we explain the unchecked **overrun this year**?

- Local authority current and capital; social security

- Revenue buoyant, so no PSBR problem

6. How do we explain the **particular numbers** - huge additions to planning totals/programmes?

*original position for 87-88 (cash standstill) was more admitted. was unrealistic.*

- Local authorities, social security unavoidable

*ambiguity*

- Positive priority for education, health, law and order, housing

7. Why is the Survey outcome so much **worse this year than last**?

- No significant rise this time in privatisation proceeds

- Last year had only just upped planning total by £2 bn

*Why?*

- Meeting tight targets gets more difficult as time goes on

- Worse local government overspending in current year (? once-for-all adjustment to abolition of targets)

*↑ will need determined effort to sell line that LA position much more realistic in 87-88 (stories about Ealing ↑↑ expenditure & Mr Kennock's rates don't help)*



8. What happened to "Revenue determines expenditure"?

- Keeping expenditure to what country can afford
- In current year, higher spending broadly balanced by higher revenue

9. Why should the new numbers be any more **credible** than the old?

- We increased the planning totals by £2 bn in 1985. We think we are overrunning the higher totals by £1½ bn in 1986-87. Now we are raising them again. Why should anyone believe they will stick?

- Plans for future look much more like record for past
- Determined attempt to make programme provisions realistic
  - local authorities, social security take-up, ?IBAP, etc.

10. How can we get by with a lower **Reserve** than in last two years?

- See 9
- Until 1985-86, largest ever Reserve was £3 bn [check]
- Higher recent Reserves were simplest way to allow for things in pipeline which should really be in programme provision
  - 1985-86: higher inflation, coal strike; 1986-87: local authority overspending

*When spent  
Cut for  
LA  
invention*

11. How do we counter suggestions of Treasury **sell-out**?

- Compare 1987-88 with 1986-87, as well as 1987-88 with baseline
- Signs of toughness: ?defence

12. **Virtue deferred** to 1988-89?

- Can refer to EC



- But hard to solve by words: need to scale down 1987-88 if at all possible

Revenue/borrowing

13. What do we say about **finance**?

- ✓ - No change in/implications for fiscal stance
- ✓ - No PSBR problem this year
- National insurance determined by prospects for Fund: no hints for fiscal policy
- Not green budget

??  
↓

How do we square this with unavoidable LA current/social security

14. Tax v spending. **Tax cuts off?**

- Expenditure changes decided on merits - to provide services people want, not to buy jobs/stimulate the economy/change macro-economic policy
- Long-term tax aim well known - as are constraints imposed by prudent approach
- As always, whether anything can be done in any particular Budget remains to be seen

↓

more higher go ✓  
where scope for tax cuts of 7%

Forecast

15. What **bull points** do we highlight?

- Growth faster next year than this
- Better balanced
- Inflation low



16. Balance of payments?

*less than (to 0.4%)*  
- Prospective deficit only about  $\frac{1}{2}\%$  of national income

- h* - Overseas assets more than 25%
- Exchange rate adjustment in place
- Exports performing well (Mansion House)
- J-curve
- Cambridge

17. Rising inflation?

- h* - Flattish excluding mortgage rate
- Recorded rate may go up slightly before coming down, but that's just the pattern of these things *— cf 1985*
- No risks
- Ultimate objective stable prices

18. Money GDP?

- This year and next broadly balance: below path this, above next

Preparing the ground

19. Has anyone any initial reactions to the first drafts of **key briefs** which Miss O'Mara has prepared - attached?

20. Should we adjust our **press line** at all in the final weeks before the Autumn Statement?



ROBERT CULPIN



## STRATEGY

### Factual

- (i) General government expenditure declines as percentage of GDP in each year of Survey period.
- (ii) New public expenditure totals represent Cabinet's ~~prudent~~ <sup>Consolidated</sup> allocation of spending priorities within resources country can afford.
- (iii) MTFFS remains in place.
- (iv) Government remains committed to reduction of tax burden and <sup>to objective of</sup> basic rate of 25 per cent.

### Positive

- (i) Reallocation of priorities permits increase in programmes to which public clearly attach greatest importance - health, education, law and order.
- (ii) Steady decline forecast in GGE as percentage of GDP over Survey period, reducing burden of State on private sector. Similar profile, even excluding privatisation proceeds.

### Defensive

- (i) Policy U-turn. No. In June 1979 Budget then Chancellor noted need "to reduce the size of the public sector and the burden of financing it" (OR 18 June 1979 col 1038). Reduction in GGE as percentage of GDP throughout Survey period thus fully consistent with well-established aim.
- (ii) Chancellor's Party Conference rejection of "irresponsible spending spree" overturned. Neither "irresponsible" nor "spree". GGE declines as percentage of GDP in every Survey year. Government retains prudent control of nation's finances.

Manifesto quote better (if can use it?)



(i) Loosening of fiscal policy? No.

(a) For 1986-87, PSBR forecast of £7½ billion even though oil price averaged \$[13½] April-October, compared with \$15 forecast assumption for March to December 1986.

(b) For future years need to look at both sides of account: expenditure and revenue. No revenue forecasts until next Budget. But should note revenue buoyancy in 1986-87.

(iv) How can Government afford to increase planning totals this autumn but not last, despite subsequent oil price fall? Need to look at overall fiscal stance, not just expenditure side of account. While forecast of North Sea revenues certainly fallen since last autumn, evidence so far for 1986-87 suggests other revenues increasing. For full picture, must wait for Budget. But Government remains fully committed to prudent management of nation's finances.

(v) Government favouring public expenditure above tax cuts. No. Government remains firmly committed to reduction in tax burden.

(vi) Increase in public expenditure reduces fiscal adjustment and hence scope for future tax cuts. Size of fiscal adjustment will depend on future tax revenues as well as spending. As last year, no forecast of revenue or fiscal adjustment for future years published with Autumn Statement. But factors underlying buoyancy of revenue in 1986-87 not necessarily restricted to single year.

(vii) Revision to MTFS necessary? No. MTFS is reviewed each year in run-up to Budget, not in autumn.

(viii) Price stability objective abandoned: Have always described this as "ultimate" objective - not one to be reached this year or next. Remember that Government inherited inflation of 10 per cent and rising in 1979. More than halved in last Parliament. Now only 3 per cent. Price stability realistic objective for next Parliament.



## B1 FISCAL POLICY 1986-87 TO 1989-90: REVENUE PROSPECTS 1986-87

### Factual

(i) 1986-87 revenue forecast: Lower oil revenues than Budget forecast broadly offset by higher non-oil taxes. North Sea taxes are lower because of lower dollar oil price but non-North Sea corporation tax up in line with higher profits in 1985. Buoyant stock market and higher asset prices producing increased stamp duty. Growth in consumers' expenditure produces higher VAT receipts.

### Positive

(i) PSBR for 1986-87 forecast at £7½ billion, although North Sea revenue forecast £6 billion lower than in 1985-86.

(ii) If PSBR were set at same proportion of GDP as at 1975-76 peak under Labour Government, would now amount to mind-boggling £[35] billion.

### Defensive

(i) Loosening of fiscal policy? As before.

(ii) Chancellor should now fulfil pledge to maintain level of money demand. [Money GDP growth undershooting MTFs projection for 1986-87.] Money GDP projections not targets. Fluctuations will inevitably occur. Aim is to avoid significant sustained departures in either direction. Money GDP growth currently about 1 per cent below path envisaged at Budget time. But last year about same amount above. Slower growth in 1986 should be reflected in higher growth in 1987. Government continues to monitor situation carefully. Time for any adjustment is in Budget, not now.

(iii) Government favouring public expenditure above tax cuts. As before.

(iv) Case for tax cuts weak even in principle. No. Those who pray in aid model simulations to support their case fundamentally misguided. No model fully captures incentive and other supply side effects of tax reductions.

(v) No scope for future tax cuts. As before.

Mention  
1987  
West  
ke  
above?



## 3 INDUSTRY ACT FORECAST OF UK

### Positive

- (i) Strong output growth: Non-oil output forecast to grow at  $3\frac{1}{2}$  per cent in 1987; GDP at 3 per cent.
- (ii) Exports: Marked recovery in 1987.
- (iii) Balanced growth: Exports forecast to grow at similar rate to domestic demand.
- (iv) Unemployment: Conventionally, no Government forecasts future level of unemployment. But encouraging that September recorded largest monthly fall in seasonally adjusted total for over 7 years and vacancies at highest level since December 1979. For future, higher output growth and projected slowdown in both rise of working population and female activity rates support FSBR assessment that prospects for unemployment better than for some years.
- (v) Faster world trade growth as benefits of lower oil price feed through into higher output.

### Defensive

- (i) Inflation picking up. Some rise forecast world-wide. But RPI distorted by inclusion of mortgage interest payments: exaggerates movements both up and down as Treasury have pointed out consistently over recent months. Excluding this factor, UK inflation remains broadly stable over forecast period at  $[3\frac{1}{2}]$  per cent.
- (ii) Stable prices: As before.
- (iii) Rapid earnings growth: Unit wage and salary costs in UK rising at [3] times rate in major competitor countries. Moderation in level of settlements remains key to substantial reduction in unemployment.
- (iv) Growth only picking up because of rise in real earnings. No. Largely reflects faster export growth. Private sector investment also picking up. Growth in consumers' expenditure lower in 1987 than 1986. Have predicted for some time that growth will be higher in 1987 as economy adjusts to lower oil price.



(vi) Fiscal adjustment unpublished because eliminated. No. Simply following precedent set last year in light of market's inability to appreciate status of fiscal adjustment published in autumn 1984. Much suspicion in run up to this year's Budget that Government had abandoned plans for tax cuts. In event, tax burden reduced by net £1 billion.

(vii) Implications of new planning totals for MTFS. No change in overall stance. MTFS projections will be published, as usual, at Budget time.

(viii) Monetary-fiscal mix. Budget Speech referred to possibility of change in mix over short term. But October rise in interest rates did not represent tightening of monetary stance as described in Budget. Autumn Statement measures are not departure from fiscal policy set out in Budget.



(v) Growth in domestic demand faster than growth in GDP. True of G7 countries excluding UK too.

(vi) Consumer boom: Consumers' expenditure forecast to grow strongly. But so are private sector investment and exports of manufactures.

(vii) Balance of payments: See C8.

(viii) 1986-87 PSBR forecast above £7.1 billion forecast at Budget time. At Budget time, indicated PSBR forecast error could be  $\pm$  £5 billion, even now, still  $\pm$  £[3] billion. Forecasting increase in PSBR of less than £½ billion since Budget, although oil price over period substantially lower on average than Budget assumption of \$15 for March to December 1986.



## 8 BALANCE OF PAYMENTS AND COMPETITIVENESS

PositiveNet

- (i) UK stock of overseas assets £80 billion (23 per cent of GDP) in 1985 and rising - competing with Japan for highest in world. Will yield future income (£3½ billion in 1985) to strengthen current account and cushion effect of declining oil production.
- (ii) Exchange rate fall since beginning of year will benefit non-oil trade in time, provided not offset by high inflation. Temporary adverse factors (eg relative weakness of export markets and J-curve effect) will gradually disappear.
- (iii) Non-oil exports of goods and services forecast to rise by 5 per cent in 1987.
- (iv) Trade in manufactures: In contrast to past trends, since 1981 UK has maintained its volume share of trade in manufactures.

Defensive

- (i) Move into deficit explicable:
- (a) Oil price fall means sharp cut in oil surplus: immediate drop in oil export earnings at time when North Sea production already beginning gradual decline.
- (b) Fall in sterling which accompanied oil price collapse produces immediate deterioration in current account ie J-curve.
- (c) Oil exporters, who are important UK market, quicker to cut spending than oil importers to increase it.
- (d) Persistently high level of UK pay settlements weakens competitiveness.
- (ii) 1987 forecast deficit relatively small: <sup>less than</sup> ½ per cent of GDP. Imbalances in payments position of US, Japan and Germany currently 3-4 per cent of GDP. UK deficits in early 1970s averaged nearly 1 per cent of GDP. Recent UK surpluses have averaged 1½ per cent.



(iii) Huge margin of error surrounds current account forecast. At Budget time  $\pm$  £2½ billion for 1986 forecast. Now  $\pm$  £[3] billion for 1987 forecast.

(iv) Very large error in FSBR current account forecast for 1986. Even at Budget time difficult to foresee ramifications of oil price fall for world trade or to predict future course of oil price. Independent forecasts of current account produced at same time also subject to large errors.

Will Terry  
confirm  
this?

(v) Adjustment process could be wrecked by excessive pay settlements and inadequate non-price competitiveness. Pay situation certainly worrying. But signs that underlying trade performance improving. Decline in UK share of world trade has slowed or stopped and growth of import penetration slowed too.

(vi) Secular decline in manufactured trade balance common to industrialised economies as whole. But since 1981, UK has maintained volume share of trade in manufacturers, in contrast to past trends.

(vii) Poor export performance: Weakness of exports in latter part of 1985 and early 1986 feature of low growth in world trade rather than poor UK export performance. Over past 6 months, resumed growth in UK exports and better prospect for world trade.

(viii) Effect of deficit on exchange rate: Widely forecast so probably already largely discounted. Financial flows across exchanges five times size of trade flows. Markets more impressed by Government's overall conduct of economic policy than by sign of current account.

(ix) No case for continuous exchange rate depreciation to speed adjustment. Self defeating: would simply lead to higher inflation.

(x) Case for protectionist measures: UK has everything to gain from free trade. Protective devices costly and inefficient, reducing output and real incomes. Need permanent shift of resources into exports and import substitutes.

(xi) 1987 only first in succession of deficits? Every confidence that trade volumes will respond to exchange rate depreciation which has already taken place, providing growth in unit labour costs kept under control.



## 52 PUBLIC EXPENDITURE 1987-88 TO 1989-90

Positive

- (i) Reallocation of priorities. As before.
- (ii) Steady decline: As before.

Defensive

- (i) How can Government afford to increase planning total this autumn but not last, despite subsequent oil price fall? As before.
- (ii) Chancellor's Party Conference rejection of "irresponsible spending spree". As before.
- (iii) Now Government has breached planning totals, what guarantee new totals will be upheld? Average overspend in last 5 years less than 0.3 per cent, even including exceptional effect of coal strike. This year's increase in planning totals represented conscious decision about level of public spending nation could afford. Government remains firmly committed to prudent financial management.
- (iv) Labour Government's record. Explosion of public expenditure in 1974-75 and 1975-76 led country inevitably into arms of IMF and subsequent slashing of spending programmes: by 1978-79 total capital spending down 20 per cent in real terms over 1973-74, health capital down 31 per cent, roads capital down 36 per cent. Since 1979, total capital spending stable in real terms, health capital up over 28 per cent, roads capital up 10 per cent.
- (v) Why focus on GGE rather than planning total as percentage of GDP? Not new development: same measure quoted last autumn and in 1986 PEWP. GGE is more comprehensive measure of public expenditure than planning total: includes debt interest. Used for calculations in Green Paper on Long Term Trends in Public Expenditure and Taxation (Cmnd 9189) and MTFs. Important to be able to reconcile these documents, FSBR and Autumn Statement. But debt interest volatile component, so for control purposes, retain emphasis on planning total.

? +  
uncontrolled  
LA &  
social  
security



CHANCELLOR



FROM: A C S ALLAN

DATE: 21 October 1986

*JK*  
*min*  
*Shawlin*

**AUTUMN STATEMENT PRESENTATION**

Robert's 20 questions provide a suitable agenda for tomorrow's meeting. The other papers are Michael Scholar's two notes, first on the operational issues in Robert's Qu 1, and second with a sighting shot at a full draft statement.

2. There had been quite a head of steam building up in the Treasury behind trying to get the printed Autumn Statement out on 6 November. But Peter Middleton felt this looked too like bouncing Cabinet and carried consequent risks. So the recommendation is to stick to publishing the printed document the following week.

3. There is an important issue about the appropriate tone for the oral statement. Michael's draft is very bouyant, and runs the risk of being thought complacent. It seems almost inevitable that we will have to wait until nearer the time to see how things develop on the markets before we can decide exactly what tone is appropriate.

4. One point strikes me on the presentation (covered very fully in Robert's note): this is whether our line is that the increase in public expenditure is unavoidable or whether it is that it represents a conscious decision to spend more on priority areas. At present we seem to be doing both; I can see the attractions if we can get away with it. But we will certainly stimulate Jack Straw to point out the conflict between criticising local authority overspending and at the same time taking credit for extra spending on education, police, housing etc.

*AA*

A C S ALLAN





NOTE OF A MEETING IN THE CHANCELLOR'S ROOM, HM TREASURY  
AT 3.00PM ON 22 OCTOBER 1986

Present: Chancellor  
Chief Secretary  
Sir T Burns  
Mr Butler  
Mr Cassell  
Mr Peretz  
Mr Scholar  
Mr Sedgwick  
Mr Turnbull  
Mr Culpin  
Mr Gray  
Miss O'Mara  
Miss C Evans  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

*Ch...*  
*made in Palo get*  
*a copy of this this morning*  
*AA*

---

**AUTUMN STATEMENT PRESENTATION**

The Chancellor said that he thought there was no option but to stick with the original plan of making an oral statement on 6 November and publishing the printed document the following week. We should do everything possible to get things sewn up before Cabinet; but it would be a big mistake to take Cabinet for granted - and could indeed be counter-productive.

2. The Chancellor also thought that it would be sensible to tell Cabinet on 30 October that public expenditure would be discussed at the following week's Cabinet; and that the aim was that everything should be settled then and an oral statement made that afternoon. But he thought it would be extremely hazardous to say to the outside world that we planned to make a statement; that might well tend to make colleague feel they were being bounced.





3. Mr Butler asked whether special arrangements would be needed to let the Opposition know and to get Departments to prepare their own press notices. The Chancellor thought that there would inevitably be some press stories after Cabinet on 30 October (though these should not be prompted by Mr Ingham), and the Opposition would be tipped off from those. Departments could be asked to produce press notices on a contingency basis, with the Treasury making it quiet clear that they would only be issued that day if Cabinet did agree. Mr Culpin noted that Mr Ingham would inevitably be asked when a statement would be made. The Chancellor thought the response should be "as soon as practicable after Cabinet has agreed".

4. The Chancellor agreed that the Lord President should inform colleagues of the outcome of Star Chamber in a paper circulated to Cabinet on 3 or 4 November. The Chief Secretary commented that it would be important that this paper made a point of being as informative as possible and setting out all the issues - including information on all programmes settled bilaterally. The Chancellor said he was not attracted to the idea that he might himself circulate a paper without numbers. He thought a better approach would be for there to be a sentence in the Lord President's paper to say that Star Chamber had been unable to meet the Cabinet's targets in year one and had left only very small reserves in the years two and three; the Chancellor might feel that the totals need to be increased further in order to provide adequate reserves. This formulation would carry a certain welcome uncertainty about exactly what action the Chancellor might take. Then, at Cabinet on 6 November, after there had been full discussion of the individual programmes, the Prime Minister could turn to the Chancellor and ask what he proposed. He would then explain his proposals, perhaps handing round a piece of paper with the basic figures.

5. The Chief Secretary noted that it would be very important to have bilaterals with individual Cabinet colleagues before





6 November. The Chancellor agreed. It would be particularly important to explain the position to those colleagues who had settled early and who might feel that they had lost out.

6. The Chancellor was not attracted to the idea of circulating a paper on the economic prospects. But he might want to hand round a summary table at the meeting.

7. The Chancellor indicated that on the oral statement, he would want to start by saying something on the lines that Cabinet had that day agreed the PES plans for the next three years; given the long gap if a statement was delayed till the next week, he felt it right that the House should be informed at the earliest opportunity.

8. The Chancellor asked whether we should think about doing anything to soften the markets up *before* 6 November. Sir T Burns said he was against letting information dribble out in an uncoordinated way. It will be better to present the whole package in a coherent fashion. The Chancellor agreed. There should be no attempt to soften up the markets, though any market decisions would need to be taken with the prospect of the Autumn Statement in mind.

9. On the presentation, the Chancellor felt that it was very important to follow the line that expenditure was declining as a proportion of GDP. It was thus highly desirable to show a fall between 1985-86 and 1986-87.

10. The Chancellor also felt that a major issue for presentation was whether the line should be that this was an appalling outcome forced upon us; or that this was a deliberate decision taken in the light of the Government's priorities. He had no doubt that in both market and political terms it was essential to go for the second presentation. We could not maintain the line both that all the extra local authority spending was undesirable and that we had





deliberately increased spending on education. So although there should be an element of blaming irresponsible local authorities, the main weight must be that the Government had decided that the increase was appropriate.

11. It would be critical to balance that by stating very clearly that the increase in public expenditure carried with it no implications for the fiscal stance. That would be decided in the Budget in the light of what was appropriate then. In response to questions the Chancellor would say he did not know what the scope for tax cuts would be, though he would admit that it had been reduced by the increase in public expenditure.

12. The Chancellor asked for figures on how much the forecast of oil revenues had declined between the Budget and now. If this was large enough, a useful line would be that the increase in expenditure had been precisely offset by the increased buoyancy of non-oil revenues.

13. Mr Culpin said it would also be helpful if figures could be produced showing what an intelligent analyst might estimate about the likely path of revenues next year; it would be helpful to know whether they would be predicting tax increases or tax cuts next Budget.

14. The Chief Secretary said he would be minuting the Chancellor on issues not covered so far, including the handling of the media, the Backbench Committee, and the rest of the Party.

15. Among the other points made were

- (i) The Chancellor thought the passages in the draft statement on the economic prospects were a bit too expansive, and he would want something more measured.





- (ii) It was agreed that some mention should be made in the forecast about the RPI less mortgage payments, on the lines that the profile was pretty flat.
- (iii) Mr Butler would produce a draft of the table which would be handed out at the time of the Oral Statement.
- (iv) Mr Cassell noted that there would need to be a section on oil taxation, though it was not quite clear where in the statement this should come.

17. The Chancellor asked the Chief Secretary to provide redrafted passages on the individual expenditure programmes. He himself would pass on to Mr Scholar his ideas about changes to the rest of the statement. He would then hold a further meeting when a new draft of the whole statement was ready.

ACSA

A C S ALLAN

22 October 1986

Distribution

Those present  
Sir P Middleton



SECRET



FROM: JILL RUTTER

DATE: 24 October 1986

PRINCIPAL PRIVATE SECRETARY

cc:  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr F E R Butler  
 Mr Sedgwick  
 Mr Scholar  
 Mr Turnbull  
 Mr Gray  
 Miss O'Mara  
 Mr Culpin  
 Miss C Evans  
 Mr Cropper  
 Mr Tyrie

## 1986 AUTUMN STATEMENT: PRESENTATION

The purpose of this minute is to record some further thoughts of the Chief Secretary's on Mr Scholar's minute of 20 October and to report the outcome of a discussion the Chief Secretary had about the handling of the publicity on the public expenditure side of the Autumn Statement with Mr Culpin, Mr Cropper and Mr Tyrie.

2 It was agreed at the meeting yesterday that the Chief Secretary would redraft the section on individual spending decisions. The Chief Secretary reports that he very much agrees with the Chancellor's view that he cannot simultaneously blame local authorities for profligacy forcing up the spending numbers and at the same time take credit for the increase in Education spending. But we can point to areas of less high priority where local authority spending is irresponsible.

3 More generally the Chief Secretary thinks that the theme should be that the outcome of this year's Survey is a continuation of the policy of seeking the right to balance between the spending priorities and tax changes. We will want to put as much emphasis as possible on capital expenditure - in part of the response to the CBI.

*Pete Sedgwick - in separate note on Index of Not present - says we will want to play the down*

SECRET

*since G.G. Investment is forecast to fall by 2% < 1987. Need figures urgently AA*

PS/CST  
 →  
 ACSA  
 24/10



SECRET

4 The Chief Secretary thinks we will need defensive briefing *on* and the figures for industry and employment. The largest reduction compared with 1986-87 estimated outturn will be in DTI programmes and we are holding employment to baseline. These are likely areas of opposition attack. *In that* On context the Chief Secretary has noted that we will also need good defensive briefing against the unemployment assumptions in the ERDF report.

5 On Mr Culpin's minute the Chief Secretary agrees that we should focus strongly on the position *on LA* current, LA capital and social security though we must guard against the suggestions that these are likely to show similar overall runs next year which might undermine the credibility of the Reserve. He agrees that we should bring out the positive priorities we attach to Education and Law and Order and Housing etc.

6 The Chief Secretary is not attracted at all to the ideas in paragraph 7 of Mr Culpin's note where he suggests that we might use as a defensive line that there has been no significant rise this time in privatisation proceeds. The Chief Secretary thinks that exposes the outcome of the 1986-87 Survey, *i.e. exposes what we did last year.*

7 On handling of the Autumn Statement the Chief Secretary has the following views.

8 He thinks it would be useful if colleagues were seen in the immediate run-up to the Autumn Statement. He will discuss this at a bilateral with the Chancellor. It will be particularly important to focus on how spending increases in individual departments are handled. Mr Culpin pointed out that it is important to ensure that the collectivity of spending Ministers does not appear to be singing a different tune *to from* Treasury Ministers.

9 There was a brief discussion of media handling. Mr Culpin explained that the normal procedure was for the Chancellor and

SECRET

This also features in para 11 of Mr Scholar's draft Oral Statement.

?



SECRET

the Chief Secretary to see the Lobby and then the backbench Finance Committee. An alternative would be for the Chief Secretary to do a Press Conference with specialist economics correspondents on public expenditure. The Chief Secretary agreed with Mr Culpin's advice that it would be better to follow the normal format and for Mr Butler and Sir Terence Burns to brief Economics correspondents.

10 Mr Cropper raised the issue of the briefing for Backbenchers. Mr Tyrie would take this in hand. He would try to arrange for the briefing to be sent out with the Whip on Thursday evening since few Members might be in the House on the Thursday given the imminent prorogation.

11 The Chief Secretary noted it would be important for Parliamentary Private Secretaries to be in a position to explain the position to Backbenchers. There was a brief discussion about how this might be done. The Chief Secretary thought that it might be useful if the Economic Secretary could brief PPSs on the day of the Autumn Statement. Perhaps he could discuss this with the Chancellor (if he has not done so already).

*Jill Rutter*

JILL RUTTER  
Private Secretary

SECRET



SECRET

FROM: A P HUDSON  
DATE: 24 OCTOBER 1986

1. MR ALLAN
2. CHANCELLOR

#### AUTUMN STATEMENT

You said at Wednesday's meeting that you would want to work further on the draft Oral Statement attached to Mr Scholar's 20 October minute.

2. I attach a clean copy of Michael's draft, and the previous papers. Also below are two new papers: the Chief Secretary's views; and a helpful note from Colin Mowl.

#### Points from meeting

3. I think the main points from the meeting on the Oral Statement were:

a. You wanted to begin with something like "the Cabinet has today agreed the PES plans for the next three years; given the long gap if a statement was delayed until next week, I thought it right that the House should be informed at the earliest possible opportunity."

b. Depending on the figures, you thought a useful line could be that the increase in expenditure had been precisely offset by the increased buoyancy of non-oil revenues. Mr Mowl's minute of today confirms that this is valid.

c. The presentation should stress that expenditure was declining at a proportion of GDP.

d. You were clear that the right presentation was that the increase was a deliberate decision. But this should be balanced by stating very clearly that it carried no implications for the fiscal stance, which would be decided at the time of the Budget.





e. Something would be needed on oil taxation, either early on (possibly in paragraph 4 of the Scholar draft), or later.

f. You thought that the section on the economy should be more measured.

Length

4. I reckon the present draft would run to 15-18 minutes.

AH

A P HUDSON



SECRET

**DRAFT ORAL AUTUMN STATEMENT (consistent with Plan B)**

1. With permission Mr Speaker I should like to make a statement.
2. As the House will not be sitting next week, it is not possible this year to follow in every detail the usual timetable for publication of the Autumn Statement. But I thought it would be for the convenience of the House if I were to make a full oral statement today about the Government's public expenditure decisions, its proposals for next year's national insurance contributions, and the forecast of economic prospects for 1987 required by the Industry Act 1985. The printed Autumn Statement, in its usual form, will be laid before the House when we come back next week.

**The outturn for 1986-87**

3. I deal first, as usual, with the current year, 1986-87. In the public expenditure White Paper published last January, the planning total for this year was put at £139 billion. My best estimate of the prospective outturn is an excess of just over 1 per cent, at £140.5 billion. The main factors behind this have been the current spending of local authorities, whose budgets indicated an increase in spending of [8 per cent] over last year, an excess of £3 billion over the provision in the White Paper; local authorities' capital spending, which is now estimated to be running at  $\frac{1}{2}$  billion over plans; and an extra £1 billion on social security.



4. Revenue has also been running somewhat ahead of the forecast I made in the budget. In March it was already clear that buoyant demand in the non-North Sea economy, and an increasingly profitable corporate sector, were generating additional tax revenues which would more than offset the loss of revenue from the North Sea. That buoyancy is set to continue, both this financial year and next. Taking account of further increases in government receipts this year, which will in large measure offset the increased expenditure, I now estimate the outturn for the PSBR in the current financial year at [ $\pounds 7\frac{1}{2}$ ] billion compared with the estimate of  $\pounds 7$  billion made at the time of the Budget. Public sector borrowing is, then, running broadly on the track I set for it at budget time.

#### Public expenditure plans 1987-88 to 1989-90

5. I turn now to our public expenditure plans for the next three years, 1987-88 to 1989-90.

6. During the 1960s and 1970s, public expenditure grew by around  $3\frac{1}{2}$  per cent a year, faster than the economy as a whole. As a result, public spending came to represent a greater and greater proportion of GDP. With that, as the House and the country know to their cost, the burden of taxation and public borrowing inexorably increased.

7. Our objective has been to reverse these trends. The borrowing requirement is back at the level last seen in the early 1970s. [In each of the last five budgets taxes have been reduced.] From its peak of  $46\frac{1}{2}$  per cent in 1982-83, Government expenditure has fallen as a proportion of GDP to an estimated  $43\frac{1}{2}$  per cent in 1986-87.

*big tax increases here*



8. Our approach to expenditure planning has been to relate spending to what the nation can afford to finance, whether by taxation or borrowing. To achieve our objective of bringing taxes down and keeping borrowing low in accordance with our medium-term financial strategy, it is essential that public spending continues to fall as a proportion of GDP. The plans I am about to announce will take the ratio down from [43½] per cent this year to [41½] per cent in 1989-90, back to the level of the early 1970s.

9. Within this constraint we have sought to achieve three things:
- to establish priorities, allowing us to increase spending on certain vital services such as education, health and the renovation of public sector housing;
  - to make realistic provision for those areas such as local authority current expenditure which are not directly under government control, and the so-called demand-led programmes such as social security;
  - over the whole range of spending to secure greater value for money so that better services are delivered from whatever resources are made available.

10. Within the constraints of this approach, and with the prospect of steady and continuing growth of national output over the next three years, we have felt able to make some increase in the previously announced planning totals of £144 billion in 1987-88 and £149 billion in 1988-89. The revised planning totals for the next three years will be £x billion, £y billion and £z billion. Compared with the forecast outturn for 1986-87, these totals represent an average growth of [just over 1 per cent] per year in real terms, well within the prospective growth of the economy.



11. These totals incorporate estimates for the proceeds of privatisation. Last year I raised the estimate of these proceeds to £4½ billion in each year, a figure which I expect to be achieved this year. Although this programme is now moving ahead strongly, I have not thought it right to make any further substantial adjustment to this estimate, which has been rounded to £5 billion in each year.

*substantially*

*Very*

*July*

*no power on*

*decided to make only a small further addition*

*bring it*

12. For defence, our plans remain unchanged though in 1989-90 the cost of the Falklands Garrison, now down to £130 million a year, will be met from within the Defence budget. The benefit of the heavy re-equipment programme of recent years and the increasing savings from greater efficiency will ensure that our improved defence capability is sustained.

13. In addition to enjoying the benefits of substantially higher receipts from council house sales, housing investment will be increased by £240 million in 1987-88. This will sustain the rising trend of spending on renovation and improvements.

14. Spending on the health service will be increased by £x million a year. Combined with the resources increasingly being generated by greater efficiency, this will not only meet the growing demands on the health service but will allow it to improve services.

15. The largest single increase is for local authorities whose current spending, including the provision for teachers' pay, is now put next year at £4 billion above previous provision. In subsequent years this spending is projected to grow more or less in line with inflation.

*is this strike?*

*both strike & program*

*in various - funds*



16. In addition to the very substantially increased expenditure on schools contained within local authority current spending, there will be additional provision for universities of £60 million in 1987-88 and £70 million in 1988-89. This fulfils the undertaking by the former Secretary of State for Education and Science to increase support for universities as part of a major programme to improve efficiency and raise standards. Grants to the Research Councils will be increased by £20 million a year.

*In the light of the year's experience*  
17. £1 $\frac{3}{4}$  billion has been added to next year's provision for social services. *This change reflects a goals target*  
~~Less than a third of this increase is attributable to changed economic assumptions about prices and unemployment. Most of the rest represents greater take-up of existing benefits.~~  
*mean-while, in these budgets that budget.*

18. Finally the plans will contain substantial and rising reserves of £a, b and c million. As I have made clear, additions have been made, from 1987-88 onwards, to local authority current and capital expenditure and to social security spending - the 3 programmes which, in the current year have put most pressure on the Reserve. This has been necessary to ensure realistic provision in each of the next 3 years. Although, in the current year, net increases in other programmes has been modest, I have nevertheless judged it prudent to include substantial Reserves for the next 3 years.

19. A summary table setting out the figures for each programme will be available in the Vote Office when I sit down and further details of these and other changes will be contained in the printed version of the Autumn Statement which will be published as soon as the House returns. In addition, full details together with



will remain at 9 per cent for employees and 10.45 per cent for employers. *[With those underpin rates, ...]*

24. My Rt Hon Friend the Secretary of State for Social Services will announce details of these proposals [this afternoon] and will [shortly] lay before Parliament the necessary order and the accompanying report by the Government Actuary.

25. Finally I turn to the Industry Act Forecast.

26. Developments in the economy this year have in many ways been similar to those in the other large industrial economies. The world economy has been through a difficult phase of adjustment to a number of major shifts in relative prices - including the dollar, commodity prices in general and the oil price in particular. Exports by the major economies to OPEC and other developing countries have been weak, and this has led to some stagnation in industrial output, of which the United Kingdom has experienced its share. But total output growth in the major industrial countries in 1986 has generally been running somewhat ahead of growth in industrial output; here at home output as a whole has been about 2-2½ per cent above last year's level, compared with the Budget forecast of 3 per cent. 1986 has been the fifth successive year of growth, and has seen the start of the sixth, with growth averaging about [3 per cent] a year.

27. Domestic demand has risen rapidly this year, as expected at the time of the Budget. Inflation has fallen even more sharply than forecast, to levels not seen in the this country for almost



20 years. I now expect it to rise slightly above the current level, to  $3\frac{1}{4}$  per cent in the fourth quarter of this year and to  $3\frac{3}{4}$  per cent in the fourth quarter of 1987. Excluding the effects of mortgage rates it is now a little above 3 per cent and on this basis I expect it to be  $3\frac{1}{4}$  per cent in the fourth quarter of this year; and  $3\frac{1}{4}$  per cent in the fourth quarter of next year.

28. Employment has continued to rise; since the 1983 general election a million new jobs have been created, and total employment has risen for thirteen successive quarters. Unemployment may at last have begun to fall - although it must be some time before we will know if the very welcome falls in the last two months are the beginning of a new and sustained trend.

29. Looking ahead to 1987 the prospects are generally encouraging. There are now signs of buoyant domestic demand in most of the major industrial countries, and, with the fall in demand from OPEC and other developing country markets coming to an end we may expect a more vigorous and assured growth in world output and trade. Over recent years, in sharp contrast to the previous pattern, we have maintained our volume share of world trade in manufactures, and it is now clear that our exports have resumed the vigorous growth they were showing before the pause in activity began.

30. British industry is now in an exceptionally favourable position to take advantage of the strengthening of the world economy. The adjustment of the sterling exchange rate to a lower level of oil prices has now taken place, and our exports are now more competitive than they have been for many years. Full



adjustment of our trade to all these shifts in relative prices will, of course, take time, and, taking account of the much slower than forecast growth in our export markets, I now expect the current account of the balance of payments to be in approximate balance this year, with a deficit of some £1½ billion in 1987.

31. Although output in the North Sea is likely to fall next year the growth of non-oil exports is, as I have indicated, expected to run more strongly in 1987. Domestic demand is likely to grow at about the same rate in 1987 as this year. The favourable prospects for industry should mean a good investment performance. All in all I expect 1987 to be a year of balanced growth at a sustainable pace, with output as a whole rising by almost 3 per cent.

32. The full text of the Autumn forecast is to be published today by the Treasury and will be included as usual in the printed Autumn Statement next week. The forecast is now available in the Vote Office.

### **PERORATION**

33. 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 rising living standards. That combination has eluded governments of both parties for many years. We have brought it about by sticking to policies of free markets and sound money. We shall continue to stick to those policies.





Ch

These numbers do reflect latest view (but are poorly presented). Arithmetic is :

FSBR present  
of PSBR                      £ 7.1 billion

Change since then  
in GG BR                      + £ 1.4 billion  
(as in para 5)

Change in  
PCMOB                      - £ 0.6 billion

---

£ 7.9 billion.

This is precasters' central view including £ 0.3 APRT change. So numbers will change to reflect / over



decision to publish  $\neq 7\frac{1}{2}$  billion not  
 $\neq 8$  billion.

PCMOB is comparing because it  
is in the Planning Total but  
is not in GGE. Estimate  
has fallen  $\neq 0.6$  billion since  
PSBR, hence need to add  
 $\neq 0.6$  billion in going from change  
in Planning Total to change in  
GGE (and then to deduct it  
again in going to PSBR!)

AA



*PWP*

FROM: COLIN MOWL  
DATE: 24 October 1986

CHANCELLOR

*\* Urgent: this is for the Chancellor's review before the forecast is revised down. New central forecast for 86-87 (on 21 Oct 86). PSBR (on 21 Oct 86) - take in para 5. Bank of England's estimate of £1.4 bn per year.*

- cc Chief Secretary
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Cassell
- Mr Sedgwick
- Mr Odling-Smee
- Mr Scholar
- Mr Turnbull
- Miss O'Mara
- Mr Culpin
- Mr Cropper
- Mr Tyrie

*update figs. M.*

**AUTUMN STATEMENT: GOVERNMENT EXPENDITURE AND RECEIPTS**

This minute considers two issues arising out of your meeting on Wednesday afternoon on the presentation of the Autumn Statement:

- (i) an explanation for the downward revision to the oil revenues forecast for 1986-87 since the Budget. Was nearly all of this due to prices in the earlier months of the financial year being below the \$15 a barrel assumption?
- (ii) a comparison of the projected revisions to the estimates for public expenditure and non-oil receipts in 1986-87 since the Budget;

In addition Mr Culpin has suggested that we should try and anticipate what the intelligent outsider might conclude about the buoyancy of revenues in 1986-87 including the implications for 1987-88. We will let you have a note on this next week.

**Oil Revenues in 1986-87**

2. The table below shows the North Sea revenues forecast for 1986-87 from the FSBR, the internal October Forecast and the draft Autumn Statement. The draft Autumn Statement Forecast takes account of the recent decision to repay some outstanding APRT in March 1987, which reduces revenues in 1986-87 by £310 million, and the latest information.

MOWL  
→  
CH/EX  
24/10



## North Sea Revenues - £ billion

	FSBR	Internal October	Draft Autumn Statement
1986-87	6.1	5.1	4.7

3. The reasons for the change in the forecast since the Budget are summarised below.

	£ billion					
	Change Since FSBR	Due to: \$ oil price	£/\$ rate	Production	Policy change	Other
1986-87	-1.4	-0.7	-0.1	-0.1	-0.3	-0.2

*Odds & ends on  
tax allowances &  
assessments.*

Thus abstracting from the policy change nearly two thirds of the projected drop in revenue is due to lower dollar oil prices.

#### Public Expenditure and Non-oil revenues in 1986-87

4. The relevant published figures for general government expenditure (GGE) and receipts will appear in part 1 of the Autumn Statement on the Economic Prospects (see the final section of the draft IAF submitted today by Mr Sedgwick). In contrast to the FSBR, the forecasts of revenue and expenditure in the Autumn Statement are given in rounded terms with relatively little detail.

5. Comparing the Autumn Statement and FSBR one gets the following picture. For the moment, to get the story straight, unrounded numbers are used, even though in some cases only rounded numbers are published.



*This is down sum  
to -0.8*

## Changes since the FSBR - £ billion

<u>General Government Expenditure</u>	85-86	86-87	<u>General Government Receipts</u>	85-86	86-87
1. Planning Total	-0.2	1.6	1. Taxes on expenditure income and capital (excluding North Sea)	1.5	-
2. Interest Payments	0.1	-0.7	2. National insurance contributions	0.2	0.2
3. Public corporations' market and overseas borrowing (PCMOB)	-0.2	0.6	3. Interest and other receipts	0.8	0.1
4. Other adjustments	1.4	-	4. Accruals adjustments	-0.2	0.1
5. Total GGE	-0.8	1.6	5. Total receipts	2.3	0.2
			of which: N. Sea	-0.2	-1.4
			non N. Sea	2.5	1.6

*Should be +1.0  
? +0.8*

6. The increase in GGE of £1½ billion in 1986-87 is the same as the increase in the planning total. The other two components of GGE which have changed - interest payments and PCMOB - have done so in a broadly offsetting way. Total general government receipts in 1986-87 are slightly higher, but as North Sea receipts are nearly £1½ billion lower, non-oil receipts are £1½ billion higher. It would be legitimate therefore to adopt something like the following line in public:

"The overshoot on public expenditure is broadly matched by higher than expected non-oil receipts."

7. Annex A attached shows in more detail where the extra revenue arises. It is mainly higher non-North Sea corporation tax and VAT. You might also note that the small change of £0.1 billion in interest and other receipts shown in paragraph 5 comprises a reduction in interest receipts of £¼ billion largely offset by higher other receipts such as gross trading surpluses and rents. Although this is not apparent from the published



figures informed outsiders might conclude from the fall in interest payments, which is published, that interest receipts are also likely to be lower.

pp. *Susan Nash*  
COLIN MOWL

CONFIDENTIAL



ANNEX A: CHANGE IN FORECAST TAX REVENUES SINCE THE BUDGET<sup>+</sup>

	<u>1985-86</u>	<u>£ billion</u> <u>1986-87</u>
1. PAYE	0.1	-0.5
2. Other personal income tax	0.6	0.2
3. ACT	-	-
4. Mainstream corporation tax excluding North Sea	0.1	0.6
5. North Sea taxes	-0.1	-1.2
6. CTT	-0.1	0.1
7. Stamp duties	-	0.3
8. Other Inland Revenue	-0.1	-0.1
9. Total Inland Revenue (1+2+3+4+5+6+7+8)	<u>0.5</u>	<u>-0.7</u>
10. VAT	0.3	1.1
11. Tobacco duty	0.1	-0.1
12. Other Customs Taxes	-	-
13. Total Customs and Excise (10+11+12)	<u>0.4</u>	<u>1.0</u>
14. Other Taxes**	0.3	-0.1
15. Total Taxes on expenditure income and capital plus accruals adjustments on taxes (9+13+14)	<u>1.2</u>	<u>0.2</u>

Memo items\*

16. NIC receipts on cash basis	0.3	-
17. Non-tax accruals adjustments	-	-0.1

+ Rows 1 to 16 are on a cash basis. Rows 1 to 3 in the table in para 5 are on an accruals basis.

\* Rows 15 + 17 equal rows 1 + 4 in receipts section of table in para 5.

\*\* Mainly local authority rates and vehicle excise duty



PWP

FROM: A ROSS GOOBEY  
DATE: 27 OCTOBER 1986

CHANCELLOR

cc Mr Scholar  
Mr Cropper  
Mr Tyrie  
Mr Colpin

AUTUMN STATEMENT

I have been reflecting on the crucial question of presentation of the Statement with my concern being influenced by the "Markets" implications rather than the probable benefits of embracing higher expenditure as a positive outcome of good general economic management.

2. The problem we face is the one of establishing the overrun on general Government expenditure, especially in 1987/8 and 1988/9, without being able to be explicit about revenues for these periods. As you say, there is only one Budget and estimates of revenue continue to change up to the very last moment.

3. I would therefore strongly support Mr Scholar's paragraph 4 as the minimum we should say about revenues. Mr Mowl's minute confirming that 1986/7's overrun is offset by extra non-North Sea revenues is also helpful to explain fiscal policy for 1986/7.

4. The question remains, however, whether the words "and next" in Mr Scholar's paragraph 4 will elicit sufficient comment to offset the announcements in his paragraph 10 about planning totals.

5. I agree that we must re-emphasise the point in Mr Allan's minute of 22 October (para 11) that the Autumn Statement is only one half of fiscal policy and the increases announced in GGE of themselves give no indication of the overall fiscal stance which will be decided at Budget time, and that while the Public Expenditure figures indicate some flexibility against previous plans, the same must not be concluded about the overall fiscal stance, because it would be incorrect.



6. As to the wording of the crucial passage in paragraphs 9 and 10 of Mr Scholar's draft, we have to bear in mind last year's rubric about "broadly constant in real terms" now being abandoned without much apparent regret or explanation. Can it be said that, although the increases in expenditure announced are modest in themselves, they do not represent abandonment of the goal of keeping expenditure roughly constant in real terms over the longer term?

✓ diff given no sign  
of it being achieved  
in foreseeable future.

ARg

A ROSS GOOBEY





*pur*

FROM: CATHY RYDING  
DATE: 27 OCTOBER 1986

MR SCHOLAR

*cc PS/Sur P Middleton*

**AUTUMN STATEMENT**

You asked me to clear with the Chancellor one or two details concerning the style and price of the Autumn Statement.

2. The Chancellor is content for the cover to be produced in exactly the same style as last year and is also content for the price to rise from £4.20 last year to £4.80 this year.

*C.R.*

CATHY RYDING





FROM: CATHY RYDING  
DATE: 24 OCTOBER 1986

CHANCELLOR

*OK*

**AUTUMN STATEMENT**

Michael Scholar'phoned with one or two questions concerning the style and price of the Autumn Statement.

2. I attach a copy of last year's Autumn Statement. Michael would be grateful to know whether you are content for the cover to be produced in exactly the same style. I understand that last year's Autumn Statement cover was unchanged from the year before.

Price

3. There are a number of options on the price of the Autumn Statement. Michael suggests a rise from £4.20 last year to £4.80 this year - an increase of 14 per cent. This represents a move halfway towards economic pricing for HMSO. Are you content with this price increase, or would you like a submission discussing the other options?

*C.R.*

CATHY RYDING



## The Prospects: summary

1.62 Table 1.12 presents a summary of the economic prospects.

**Table 1.12 Economic prospects**

	Percentage changes		Average errors from past forecasts <sup>(1)</sup>
	1984 to 1985	1985 to 1986	
<b>A Output and expenditure at constant 1980 prices</b>			
Gross domestic product (at factor cost)	3½	3	1
Consumers' expenditure	2½	4	1
General government current expenditure	0	½	1
Fixed investment	4	3½	2½
Exports of goods and services	7	2	3
Change in rate of stock-building as a percentage of the level of GDP	0	½	1
Imports of goods and services	3½	4	3
	1985	1986	
<b>B Balance of payments on current account (£ billion)</b>	3	4	3
<b>C Retail prices index (4th quarter)</b>	5½	3¾	3 <sup>(2)</sup>

<sup>(1)</sup> The errors relate to the average differences (on either side of the central figure) between forecast and outturn. The method of calculating these errors has been explained in earlier publications on Government forecasts, notably in the Economic Progress Report, June 1981. The errors are after adjustment for the effects of major changes in fiscal policy, where excluded from the forecasts.

<sup>(2)</sup> The average error for inflation was calculated from a period of much higher inflation and overstates the likely margin of error at low rates of inflation. Over the period since 1979, the average error in autumn Industry Act forecasts has been 1 per cent.

**Table 1.13 Constant price forecasts of expenditure, imports and gross domestic product\***

	£ billion at 1980 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Imports of goods and services	Less of imports of goods and services	Adjustment to factor cost	Plus Statistical adjustment	Gross domestic product at factor cost	GDP index 1980=100
1980	137.0	48.9	41.6	63.1	-2.9	287.8	57.7	30.8	0	199.3	100.0	
1981	136.6	48.8	37.7	62.0	-2.6	282.6	55.8	30.2	-0.4	196.2	98.4	
1982	137.6	49.3	40.1	62.8	-1.0	288.7	58.5	30.6	0.5	200.1	100.4	
1983	143.1	50.2	41.9	64.1	0.7	300.1	62.0	31.6	0.1	206.6	103.7	
1984	145.5	50.7	45.4	68.5	0.1	310.1	67.8	32.8	2.1	211.6	106.2	
1985	149.1	50.8	47.3	73.4	0.4	321.0	70.4	33.3	2.1	219.4	110.1	
1986	155.4	51.0	49.0	75.0	1.0	331.5	73.0	34.7	2.0	225.8	113.3	
1984 H1	72.5	25.2	22.6	33.6	-0.3	153.6	32.9	16.3	0.7	105.0	105.4	
H2	72.9	25.5	22.8	34.9	0.3	156.5	34.9	16.5	1.5	106.6	107.0	
1985 H1	73.8	25.5	23.5	37.0	0.2	159.9	35.5	16.5	1.2	109.1	109.5	
H2	75.4	25.3	23.8	36.5	0.2	161.1	34.9	16.9	0.9	110.3	110.7	
1986 H1	76.7	25.6	24.6	37.2	0.4	164.5	36.0	17.2	0.8	112.1	112.5	
H2	78.7	25.4	24.4	37.8	0.7	166.9	37.1	17.5	1.2	113.6	114.0	
% changes:												
1983 to 1984	1½	1	8	7		3½	9½	4		2½	2½	
1984 to 1985	2½	0	4	7		3½	3½	1½		3½	3½	
1985 to 1986	4	½	3½	2		3½	4	4		3	3	

\*GDP figures in the table are based on "compromise" estimates of gross domestic product, reflecting, for the past, average movements in constant-price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels and then rounded to half per cent. Totals in £ billion may not add due to rounding. Figures beyond 1985 H1 are forecasts.



## 2. Outline Public Expenditure Plans for 1986-87 to 1988-89

- 2.01 The Government has confirmed the cash totals for public expenditure for 1986-87 and 1987-88 at the levels set out in the 1985 Financial Statement and Budget Report (FSBR). Plans have now been formulated for 1988-89. After allowing for inflation, the public expenditure planning totals will remain broadly constant over the three years. With continuing economic growth over the planning period, public expenditure will continue to account for a steadily declining proportion of GDP. By 1988-89 it will be lower than at any time since 1972-73.

### 1985-86 Outturn

- 2.02 The estimated outturn for 1985-86 is £134.2 billion—as in the FSBR.

### Future Years: the Planning Total

- 2.03 The public expenditure planning total for 1986-87 has been set at £139.1 billion, and the totals for 1987-88 and 1988-89 at £143.9 billion and £148.7 billion respectively. In 1984-85 prices the public expenditure planning total is expected to remain broadly stable at around £127 billion a year, slightly lower than in 1984-85 and 1985-86. As a percentage of GDP, public expenditure falls from its peak of 46½ per cent in 1982-83 to 41 per cent in 1988-89, compared to 43 per cent in 1978-79.

**Table 2.1 Public expenditure trends**

	Planning total (£ billion) <sup>(1)</sup>		General government expenditure as % of GDP <sup>(3)</sup>
	Cash	Real terms <sup>(2)</sup> (base year 1984-85)	
1978-79	65.7	117.4	43
1979-80	77.0	117.6	43½
1980-81	92.7	119.3	46
1981-82	104.6	122.3	46
1982-83	113.4	123.8	46½
1983-84	120.3	125.8	45½
1984-85	129.7	129.7	45½
1985-86	134.2	127.8	44½
1986-87	139.1	126.8	43
1987-88	143.9	126.7	41½
1988-89	148.7	127.1	41

<sup>(1)</sup> Figures up to 1985-86 are outturn; for 1986-87 onwards they are plans.

<sup>(2)</sup> Cash figures adjusted for general inflation as measured by the GDP deflator at market prices—base year 1984-85. The GDP deflator is assumed to increase by some 5 per cent in 1985-86, and by 4½, 3½ and 3 per cent respectively in the years 1986-87 to 1988-89.

<sup>(3)</sup> General government expenditure as defined in the national accounts and presented in the Medium Term Financial Strategy (MTFS). The background to the use of general government expenditure in this ratio was set out in Economic Trends, August 1985. Table 1.9 shows the relationship between general government expenditure and the public expenditure planning total.

**Table 1.10 General government receipts**

	£ billion	
	1984-85	1985-86
Taxes on income, expenditure and capital	106	112½
National insurance and other contributions	23	24½
Interest and other receipts	10½	12½
Accruals adjustments	1	-½
<b>Total receipts</b>	<b>140½</b>	<b>149</b>
of which North Sea tax revenues*	12	11½

\* Before Advance Corporation Tax set off.

### Borrowing

- 1.61 Table 1.11 shows revised estimates of Government receipts, expenditure and borrowing in 1984-85 and 1985-86.

**Table 1.11 Public sector borrowing**

	£ billion	
	1984-85	1985-86
General government expenditure	149½	158
General government receipts	140½	149
General Government Borrowing Requirement	9	9
Public corporations' market and overseas borrowing	1	-1
Public Sector Borrowing Requirement	10	8
as percentage of GDP	3	2½
Money GDP at market prices	328	357



### Fiscal Developments

- 1.56 The PSBR in 1984–85 was £10.2 billion, very close to the forecast in the FSB. Central government borrowing on own account was slightly lower than forecast, and so was public corporations' borrowing.
- 1.57 In the first six months of 1985–86, the PSBR was £5.6 billion (borrowing is usually high in the first half of the financial year). The total for the year as a whole is now projected at £8 billion, some £1 billion higher than forecast at Budget time. There is inevitably still a substantial margin of error surrounding this forecast (average errors in PSBR forecasts at this time of year have been around  $\frac{3}{4}$  per cent of GDP, equivalent to £2½ billion). The sterling/dollar exchange rate is higher than assumed in the Budget forecast, and is the main factor reducing oil revenues by £2 billion. This is not expected to be fully offset by increases in other revenues (mainly onshore company taxes and expenditure taxes). Details of expenditure, revenue and borrowing are shown in Tables 1.9 to 1.11.

### Expenditure

- 1.58 Table 1.9 shows the relationship between the planning total and general government expenditure in national accounts terms. The planning total is forecast to rise in cash by around 3½ per cent between 1984–85 and 1985–86. The increase in general government expenditure is bigger because it includes a large rise in gross debt interest (mainly because of the increase in gross borrowing) and excludes the change in public corporations' market and overseas borrowing, which was high in 1984–85 (because of the coal strike) but has changed to net repayment in 1985–86. Expenditure figures in both years (but particularly 1984–85) are higher because of the coal strike: making a rough adjustment gives an underlying rate of increase in the planning total between 1984–85 and 1985–86 of around 4½ per cent. Details of the prospective outturn for the planning total in 1985–86 are provided in Part 2.

**Table 1.9 General government expenditure**

	1984–85	£ billion 1985–86
Public expenditure planning total	129½	134
Interest payments*	16	18
Less public corporations' market and overseas borrowing*	1	-1
Other adjustments*	5	5
General government expenditure in national accounts terms	149½	158

\*Adjustments to convert the planning total into general government expenditure on a national accounts basis. These are listed in table 2.16 of the 1985 Public Expenditure White Paper (Cmnd 9428). The major adjustments (other than interest payments and public corporations' market and overseas borrowing) are to add capital consumption, VAT refunded to local authorities, and transactions concerning certain notional public sector pension funds.

### Revenue

- 1.59 Revenue estimates, shown in Table 1.10, depend mainly on incomes, spending and prices. The revised estimates of oil revenues in 1985–86 assume that the sterling/dollar exchange rate, and dollar prices for North Sea oil, remain near recent levels up to the end of 1985.
- 1.60 The increase in non North Sea taxes and national insurance contributions in 1985–86 is a little less than the forecast rise in money GDP of 9 per cent, mainly because of the abolition of the national insurance surcharge in October 1984, and the sizeable real increases in personal tax allowances and changes in national insurance contributions introduced in the 1985 Budget. The marked rise in interest and other receipts in 1985–86 mainly reflects higher interest rates and the first dividends from British Telecom. The change in the accruals adjustment between the two years reflects the acceleration of VAT payments in 1984–85 as a result of the withdrawal of postponed accounting for VAT on imports.

### Future Years: Main Changes

- 2.04 Within unchanged planning totals a significant increase in receipts from the Government's privatisation programme has been matched by increases in departmental programmes. In addition the passage of time allows part of the Reserve for unforeseen contingencies in any given year to be allocated to programmes as their costs become known more accurately.
- 2.05 Within this increased programme provision, priority has been given to capital spending on roads and renovation of local authority housing; and to spending on health and science. In addition, scope has had to be found for demand-led increases in social security, agricultural support under the CAP and for export credit. Spending on defence remains at the level of previous plans.
- 2.06 Full details of spending plans, together with details on running costs and manpower, will be given in the forthcoming Public Expenditure White Paper.

### Departments

- 2.07 Table 2.2 sets out spending plans by department including local authority spending and nationalised industry external finance. The breakdown into departments will be carried through into separate chapters of the Public Expenditure White Paper and into the classes for Estimates, thereby making it easier to make comparisons between the various documents. Subsidiary Tables 2.2A to C at the end of Part 2 show separately the three elements within the departmental totals—nationalised industries' external finance, local authority relevant current spending and other departmental spending (including local authority capital).
- 2.08 The estimated outturn for 1985–86 reflects an increase in provision as a result of carry-forward of capital underspend from 1984–85 and the determination of the external financing requirement of Royal Ordnance plc, which had not been fixed at the time of the last Public Expenditure White Paper (Cmnd 9428). This increase has been met from the Reserve. For 1986–87 and 1987–88 the provision remains as planned. For 1988–89 the provision represents a continuation of these plans. The figures for each year include provision for Falklands costs, which decline over the period.
- 2.09 Additions have been made to the overseas aid programme. Their effect will be to maintain the programme to 1988–89 at its 1985–86 level in real terms. Part of the additions will be used to increase Aid and Trade Provision.
- 2.10 Additional provision has been made in the FCO (Other) programmes to offset increases in overseas costs, and for BBC external services. In the last year an extra £20 million is included to compensate for the ending of loan repayments by Yugoslavia.
- 2.11 The estimate of the United Kingdom's net payments to European Community institutions has increased, mainly because of a decline in our assumed share of receipts from the Community budget (particularly in respect of agricultural expenditure). The uneven pattern in net payments compared with the figures in Cmnd 9428 mainly reflects special financial arrangements earlier this year as a result of the failure of the European Parliament to adopt the 1985 Community budget on time, and the fixing of a relatively low sterling/ecu exchange rate for determining our VAT liability in the 1986 Community budget.
- 2.12 Increased provision is made to meet the cost of intervention buying which is forecast to go on rising under present CAP policies. Most of the expenditure should be recouped eventually from sales and from EC budget receipts which are reflected in the forecast UK net contribution to the EC.

### Defence

### Overseas Development Administration

### Foreign and Commonwealth Office (Other)

### European Community

### Intervention Board for Agricultural Produce and other CAP expenditure



Table 2.2 Public expenditure plans<sup>(1)(2)</sup>

Departments (including local authority spending and nationalised industries' external finance)	White Paper (Cmnd 9428 adjusted for Budget measures <sup>(3)</sup> )			Estimated outturn	Changes between Cmnd 9428 (adjusted) and outturn
	1985-86	1986-87	1987-88	1985-86	1985-86
Ministry of Defence	18 060	18 520	18 820	18 200	+200
FCO—ODA	1 260	1 300	1 320	1 250	0
FCO—Other	610	600	620	620	+10
European Community	750	640	830	800	+50
IBAP and other CAP expenditure	1 440	1 280	1 300	1 900	+450
Domestic Agriculture, Fisheries and Food	850	820	800	880	+30
Forestry Commission	50	50	50	50	0
Department of Trade and Industry	1 490	1 380	1 140	1 650	+150
Export Credits Guarantee Department	130	80	-40	340	+210
Department of Energy	-70	-940	-880	1 000	+1 100
Department of Employment	3 370	3 830	4 020	3 300	-50
Department of Transport	4 540	4 830	4 790	4 500	0
DOE—Housing	2 280	2 530	2 630	2 700	+400
DOE—Property Services Agency	-100	-100	-110	-110	-10
DOE—Other Environmental Services	3 450	3 560	3 500	3 950	+500
Home Office	4 590	4 790	4 870	4 750	+150
Lord Chancellor's Department	540	570	610	540	0
Department of Education and Science	13 600	14 020	14 230	14 400	+800
Office of Arts and Libraries	640	710	730	700	+70
DHSS—Health & Personal Social Services	16 490	17 410	18 120	16 700	+200
DHSS—Social Security	40 040	41 650	43 660	41 200	+1 200
Civil Superannuation	1 070	1 110	1 230	1 050	0
Scotland	7 160	7 340	7 320	7 400	+200
Wales	2 740	2 880	2 930	2 800	+50
Northern Ireland	4 250	4 460	4 600	4 300	+50
Chancellor's Departments	1 750	1 850	1 870	1 800	+50
Other Departments	360	380	400	350	-10
Reserve	5 000	6 000	7 000	0	-5 000
Special sales of assets	-2 500	-2 250	-2 250	-2 500 <sup>(4)</sup>	0
Adjustments <sup>(5)</sup>	330	-250	-250	-300	-630
<b>PLANNING TOTAL</b>	<b>134 200</b>	<b>139 100</b>	<b>143 900</b>	<b>134 200</b>	

<sup>(1)</sup> Some figures may be subject to detailed technical amendment before publication of the 1986 Public Expenditure White Paper.

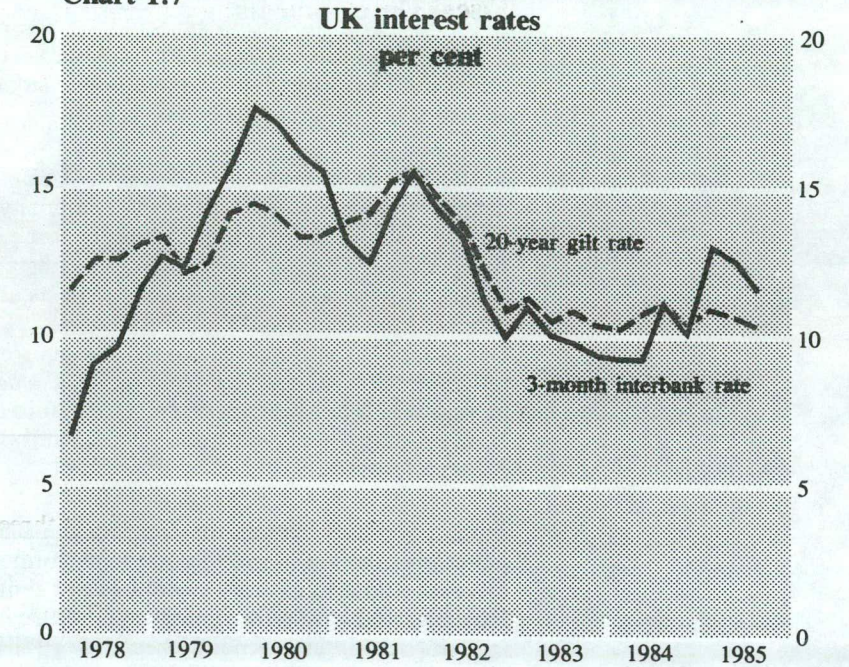
<sup>(2)</sup> Departments' figures are generally rounded to the nearest £10 million and the planned Social Security figures are rounded to the nearest £100 million. Outturn figures for 1985-86 have been rounded to reflect their provisional nature. Figures up to £1 billion have been rounded to the nearest £10 million, figures from £1 billion to £10 billion to the nearest £50 million and figures of £10 billion or more to the nearest £100 million. Differences have been calculated on unrounded figures and rounded in the same way as their equivalent outturn. Figures may not sum to totals or changes due to rounding. The same conventions apply to Tables 2.2A, 2.2B and 2.2C.

<sup>(3)</sup> Includes minor changes of classification and allocation.

<sup>(4)</sup> Cmnd 9428 planned figure.

<sup>(5)</sup> Double counting of agricultural spending in Scotland and Wales which is also included in the totals for Domestic Agriculture, Fisheries and Food and IBAP etc. The 1985-86 White Paper figure includes £590 million for unallocated local authority spending in England. The 1986-87 plan figure includes external finance of -£400 million for nationalised industries to be privatised this year.

Chart 1.7



1.55 The forecast assumes that monetary policy will continue to be directed towards sustaining further downward pressure on the growth of money GDP and hence on inflation, as in the MTFs, and that short term interest rates will be set so that the paths of the monetary aggregates and the exchange rate are consistent with this objective.

Chart 1.8

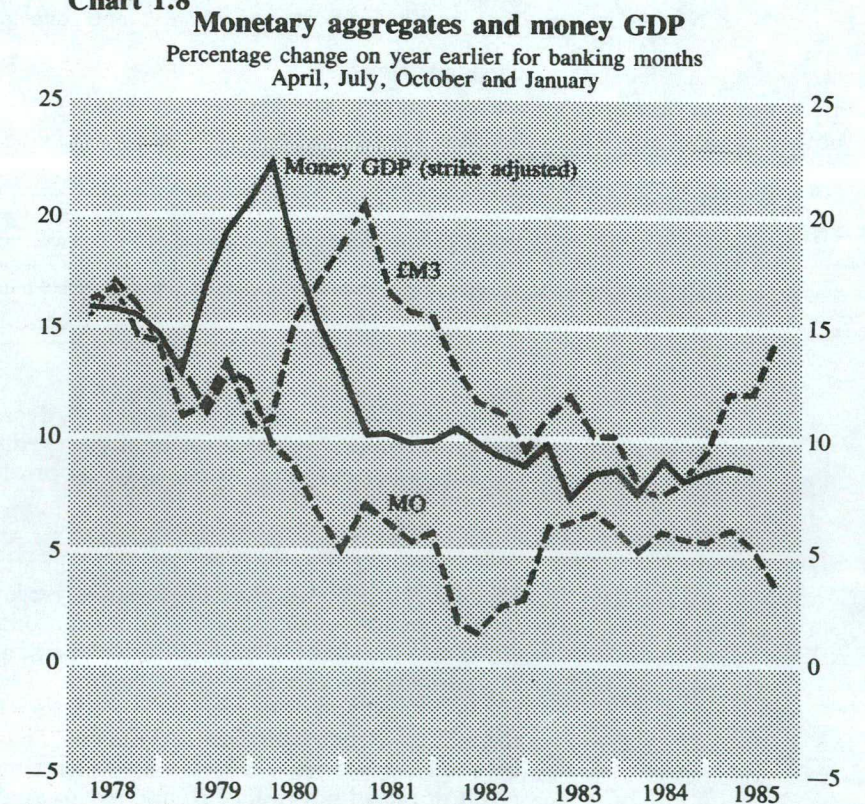




Table 1.8 Output per head of the employed labour force

	Annual averages, percentage changes		
	1964-73	1973-79	1979-84
Manufacturing	3 $\frac{3}{4}$	4 $\frac{1}{2}$	3 $\frac{1}{2}$
Non-manufacturing <sup>(1)</sup>	3	4 $\frac{1}{2}$	1 <sup>(2)</sup>

<sup>(1)</sup> Excludes public services and oil, includes nationalised industries (except steel).

<sup>(2)</sup> Adjusted for the coal strike.

- 1.50 Results from the 1984 Labour Force Survey show an increase in the civilian labour force between mid 1983 and mid 1984 of just over 500,000, with an increase of almost 400,000 in the number of women in the labour force. Of the total increase in the labour force about three fifths was attributable to changes in activity rates: in particular, there were large increases in the proportion of women between the ages of 25 and 45 who were either in work or looking for work. This rise in female participation rates has been caused by the growth in demand for part-time female labour: to a large extent the rise in part-time female employment has been met from women who were previously neither recorded as looking for work nor in the unemployment count.
- 1.51 Although no direct evidence will be available until early next year, the continuing rise in part-time female employment over the last year suggests that there has probably been a further significant rise in female participation rates. The rise in the "working population" (ie the sum of the employed labour force and unemployed claimants) over the year to June 1985 was some 400,000, about four times the growth in the labour force that could be accounted for simply by changes in population.
- 1.52 Future changes in participation rates are difficult to forecast, but the recent rate of increase in female participation seems unlikely to persist for very long. Demographic contributions to labour force changes are expected to fall in the next four years as the number of people reaching retirement age increases and the number of young people entering the labour force declines. The contribution of population change to the labour force growth is expected to fall from over 200,000 between mid 1983 and mid 1984, to under 100,000 on average over the following five years.
- 1.53 In the year to April, unemployment rose by just over 160,000 (seasonally adjusted, excluding school leavers). Since April, on this basis, unemployment has stopped rising. The bulk of the improvement seems to be a response to the higher activity of recent years; the main impact of the expansion of the Community Programme is still to be felt. In addition the extension of the Youth Training Scheme to a two-year scheme and the restructuring of employers' national insurance contributions will both start to have an effect during 1986.

### Financial Conditions

- 1.54 This year short term interest rates overseas eased further. Monetary conditions in the UK appear consistent with the expected further fall in the rate of inflation. Short-term interest rates have fallen from their January peak, but are high in real terms. Long rates have not changed much over the past three years. The exchange rate has been relatively stable since the early spring, at a level close to the average for 1983 and 1984, and M0 is well within its target range. £M3 is well above its target, but the range did not allow for the continued downward trend in velocity associated with financial liberalisation and positive real interest rates. Chart 1.7 shows UK short and long interest rates. Chart 1.8 shows £M3, M0, and money GDP.

Plans	Changes between Cmnd 9428 (adjusted) and plans		£ million		Departments (including local authority spending and nationalised industries' external finance)
	1986-87	1987-88	1986-87	1987-88	
18 520	18 820	18 990	0	0	Ministry of Defence
1 320	1 350	1 390	+20	+30	FCO—ODA
640	660	700	+40	+40	FCO—Other
650	1 150	950	+10	+320	European Community
1 550	1 640	1 670	+270	+340	IBAP and other CAP expenditure
830	820	830	+10	+10	Domestic Agriculture, Fisheries and Food
50	50	60	0	0	Forestry Commission
1 300	1 080	940	-80	-70	Department of Trade and Industry
280	170	100	+200	+210	Export Credits Guarantee Department
110	-550	-290	+1 050	+330	Department of Energy
3 760	3 810	3 990	-70*	-210*	Department of Employment
4 810	4 840	4 830	-20	+50	Department of Transport
2 750	2 830	2 880	+220	+200	DOE—Housing
-90	-110	-110	+10	0	DOE—Property Services Agency
3 620	3 530	3 560	+60	+30	DOE—Other Environmental Services
4 960	5 010	5 040	+170	+140	Home Office
590	650	700	+20	+40	Lord Chancellor's Department
14 320	14 400	14 480	+300	+170	Department of Education and Science
730	750	760	+20	+20	Office of Arts and Libraries
17 720	18 450	19 140	+310	+330	DHSS—Health & Personal Social Services
42 900	44 400	45 900	+1 250	+740	DHSS—Social Security
1 180	1 310	1 400	+70	+80	Civil Superannuation
7 540	7 390	7 420	+200	+70	Scotland
2 910	2 940	3 000	+30	+10	Wales
4 520	4 690	4 820	+60	+90	Northern Ireland
2 010	2 050	2 070	+160	+180	Chancellor's Departments
450	460	470	+70	+60	Other Departments
4 500	6 250	8 000	-1 500	-750	Reserve
-4 750	-4 750	-4 750	-2 500	-2 500	Special sales of assets
-650	-250	-260	-400	0	Adjustments <sup>(5)</sup>
139 100	143 900	148 700	—	—	PLANNING TOTAL

(\*) Compared with the last Public Expenditure White Paper (Cmnd 9428) overall provision for the Department of Employment has been increased by about £600 million in both 1986-87 and 1987-88.



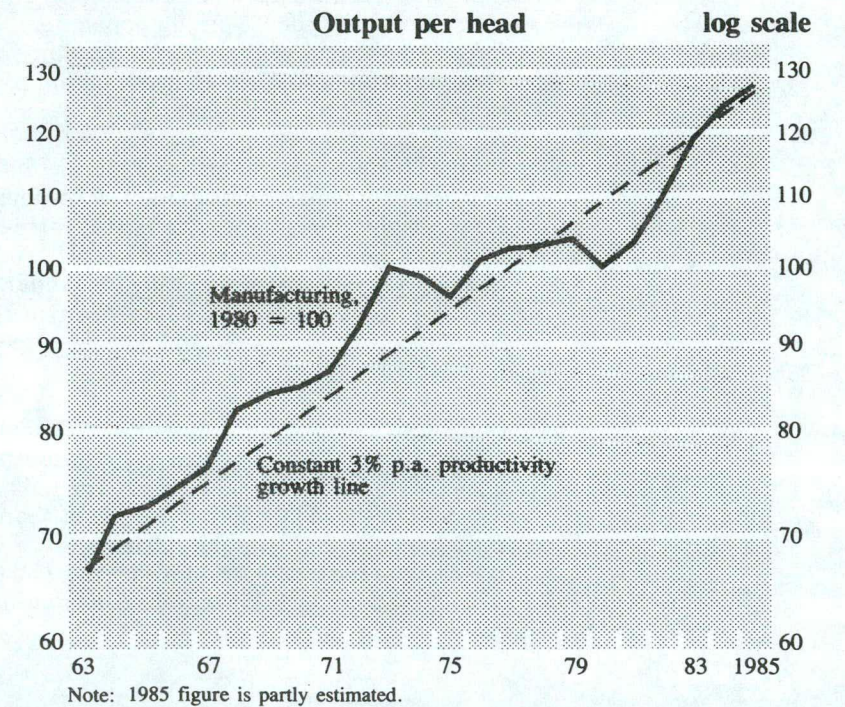
- Domestic Agriculture, Fisheries and Food** 2.13 The small addition relates mainly to capital expenditure on airborne sea fisheries protection patrols in 1986-87.
- Forestry Commission** 2.14 The provision remains as planned.
- Trade and Industry** 2.15 Reductions in the external finance of nationalised industries have been made, principally British Steel and the Post Office.
- Export Credits Guarantee Department** 2.16 Provision has been substantially increased, mainly due to the higher expected cost of interest support for fixed rate export finance.
- Energy** 2.17 The increase in 1986-87 relates mainly to the external finance of the National Coal Board and Electricity (England and Wales) and expenditure on the Redundant Mineworkers Payments Scheme.
- Employment** 2.18 In the Budget, substantial increases in provision for the Youth Training Scheme and the Community Programme were announced. These increases, which are included in the figures in Table 2.2 for Cmnd 9428 as adjusted for Budget changes amounted to about £600 million in 1986-87 and about £785 million in 1987-88. In addition, provision has now been made for an expansion in the Enterprise Allowance Scheme and for extra support for small firms and tourism. Savings result from a number of changes including lower projected expenditure on the Job Release Scheme than previously expected, and from a planned reduction in expenditure from the Redundancy Fund. Compared with the last Public Expenditure White Paper (Cmnd 9428) overall provision for the Department of Employment has been increased by about £600 million in each of 1986-87 and 1987-88 (and these increases have been carried through into 1988-89 for which provision is £180 million higher than for 1987-88).
- Transport** 2.19 Additional provision is made for capital spending on national and local roads (£37 million in 1986-87 and £52 million in 1987-88 for national roads, and £20 million a year for local roads), and for other local authority capital spending on transport. There are savings on nationalised industries' external finance. Following the new competitive framework for local bus companies (under the Transport Act 1985), and for local airports (as proposed in the White Paper on Airports Policy) these bodies will be treated similarly to nationalised industries and their capital expenditure financed by income, totalling some £39 million, will no longer be classified as public expenditure.
- Environment — Housing** 2.20 Increased provision is made for capital expenditure on renovating the local authority housing stock and for the effect of revised economic assumptions on housing subsidies. This increase is partly offset by a reduction in provision for other local authority capital and current expenditure, in provision for the Housing Corporation and by a higher forecast of capital receipts. *net provision*
- Environment — PSA** 2.21 Extra maintenance and new works have been provided for in the first year.
- Environment — Other** 2.22 Additional provision has been made for capital and current expenditure by local authorities on local environmental services and for extra expenditure by the Department on the environment and the heritage. These additions are more than offset by an increase in new towns capital receipts. The Government is reviewing the level and effectiveness of assistance for the inner cities. Meanwhile provision for the urban programme remains unchanged.
- Home Office** 2.23 The net increase is mainly for local authority expenditure on police, probation and magistrates' courts. Additional provision has been made for spending on the prison service, reflecting the growth in the number of prisoners and the increased costs of the prison building programme; on immigration control; and on the fight against drugs.
- Lord Chancellor's Department** 2.24 The revised figures reflect the increased costs of legal aid and its administration by the Law Society.

**Table 1.7 Estimated changes in employment (GB, seasonally adjusted)** thousands

	Employees in employment			Self employed	HM Forces	Employed labour force
	Male	Female full-time	Female part-time			
June 1983 to June 1984	-95	+7	+205	+273	+4	+394
June 1984 to June 1985	-71	+42	+162	+126	0	+260

1.48 The increase in the number of employees has been accounted for by women in part-time jobs, partly reflecting the industrial composition of the changes in employment. The number of employees in employment in manufacturing, construction, and energy and water supply—industries in which on average about three quarters of employees are male—continued to fall over the last year, by some 100,000; while the number of employees in distribution, hotels, catering and repairs—where male employees are in a minority—rose by some 120,000.

**Chart 1.6**



1.49 Productivity growth in manufacturing appears to have slowed down somewhat over the last year, subject to revisions to the current estimate of manufacturing output. However, even over the last year growth in manufacturing productivity has been close to the average rate recorded in the sixties, and well above the rate of growth achieved between 1973 and 1979. (See Chart 1.6.) Table 1.8 shows output per head in manufacturing and non-manufacturing. The relatively low growth in recent years in output per head in non-manufacturing in part reflects the rise in part-time employment.



**Prospects for demand and activity**

- 1.44 The composition of growth is now reverting more to the pattern experienced in the early part of the upswing, with external demand and business investment becoming relatively less important and with an increasing contribution from personal sector spending. To some extent this simply reflects developments in the world economy: the slowdown in the US means weaker world trade growth than in 1984 but weaker world prices provide a boost to domestic demand in the industrial countries.
- 1.45 Overall the economy is forecast to grow at close to the average rate of the last two years. Almost without exception, forecasters have failed to predict the strength and durability of the current upswing. Against the background of falling inflation, rising profits and recent strength in investment, further steady expansion of the economy is expected.

**Table 1.5 Domestic demand and GDP**

	Percentage changes on a year earlier		
	1984	1985	1986
Domestic demand	2½	2½	3½
Exports of goods and services	7	7	2
Imports of goods and services	9½	3½	4
Domestic production: GDP(*)	2½	3½	3

(\*) Average measure.

- 1.46 Following growth forecast at 3½ per cent in 1985, the forecast is for about 3 per cent in 1986. (See Table 1.5.) The profile of growth reflects in part the effect of the coal strike and the growth in oil output. Table 1.6 shows the forecast growth rate adjusted for the effects of the coal strike. Oil output may be a little lower in 1985 than forecast at the time of the Budget, but may not change much between 1985 and 1986. On this basis growth in non-oil GDP is expected to be roughly the same as total GDP growth in both 1985 and 1986. Between 1983 and 1986 manufacturing output is expected to grow at a rate close to that of GDP.

**Table 1.6 GDP, and manufacturing output**

	Percentage changes on a year earlier		
	1984	1985	1986
GDP (Average measure)	2½	3½	3
GDP, adjusted for coal strike(*)	3½	3	2½
Manufacturing output	4	2½	2½

(\*) Adjustments are approximate.

**Productivity and the Labour Market**

- 1.47 In the year to the end of the second quarter of 1985, the employed labour force in Great Britain is estimated to have risen by some 260,000, bringing the total increase in jobs since the first quarter of 1983 to 677,000. Growth of total employment over the most recent twelve months appears to have slowed down as compared with the previous year; but, as Table 1.7 makes clear, all of this slowdown is attributable to a deceleration assumed in the numbers in self employment. Survey data on self employment is available only up to mid 1984. Thereafter, growth in self employment has been projected at the average rate of the previous three years (126,000 a year) which is lower than the recorded rate of growth between mid 1983 and mid 1984.

**Department of Education and Science**

- 2.25 Increased provision has been made for local authority expenditure on schools and further education (including money for midday supervision); for student awards; and for science in the research councils and universities. Provision has been made to continue the Engineering and Technology Programme beyond the initial three year period.

**Office of Arts and Libraries**

- 2.26 A number of changes have been made in the provision for arts and libraries including extra money for the Arts Council to help sustain funding of the arts in the period following the abolition of the GLC and Metropolitan County Councils.

**Health and Personal Social Services**

- 2.27 Provision for the Health Service has been increased above the level described in Cmnd 9428, by £250 million in 1986-87 and by £300 million in 1987-88. Health authorities' cost improvement programmes are expected to grow above the estimated £150 million they plan to achieve in 1985-86. From within the total additional resources in 1986-87, health authorities will be expected to meet pay and price increases, to provide for more old people and to improve services. Planned provision for the Family Practitioner Services has been increased to allow for expected levels of demand; some charges will be raised. Provision for personal social services has also been increased.

**Social Security**

- 2.28 The provision reflects the latest estimates of benefit expenditure over the Survey period, and allows for upratings of benefits in July 1986, April 1987 and April 1988, on the basis of the assumed rise in prices over the relevant periods. The main policy changes will be those flowing from the Social Security Review on which a White Paper will be published shortly. The provision for 1987-88 and 1988-89 is accordingly subject to adjustment in the light of decisions yet to be taken on that Review.

- 2.29 For the purpose of these estimates, it has been assumed that the RPI will rise by 1 per cent between May 1985 and January 1986, by a further 2¼ per cent by September 1986 and by 3¼ per cent in the year to September 1987. The actual upratings of individual benefits will be announced when the relevant RPI figures are known.

**Scotland, Wales and Northern Ireland**

- 2.30 The net changes in these programmes in part reflect changes in comparable programmes in England. The Secretaries of State have discretion to allocate this expenditure taking account of local factors. The Scottish provision for 1986-87 also includes around £150 million for capital spending by the South of Scotland Electricity Board on the Torness Power Station.

**Chancellor's Departments**

- 2.31 Additional provision relates mainly to increased work of the revenue departments to combat drug abuse and prevent fraud; and expenditure on computers and staff to deal with increased work loads, especially work arising from higher levels of self employment.

**Other Departments**

- 2.32 Most of the additional provision is to cover the cost of the new Crown Prosecution Service. Allowance has also been made for higher running costs of the House of Commons and the House of Lords.

**Nationalised Industries**

- 2.33 External Financing Limits (EFLs) for nationalised industries in 1986-87 are set out in Table 2.3. Overall, there is an increase from provision in Cmnd 9428 of £450 million in expected external financing requirements. This reflects a number of changes but is primarily the result of additional requirements for the National Coal Board and the Electricity Supply Industry. Table 2.2A shows nationalised industry external finance that is included in Departments' plans. Some overall reduction is expected in 1987-88 and 1988-89 compared to 1986-87.



**Table 2.3 External financing limits for the nationalised industries (1986-87)**

	£ million <sup>(1)</sup>
National Coal Board	730 <sup>(2)</sup>
Electricity (England and Wales)	-1 416
North of Scotland Hydro-Electric Board	-4
South of Scotland Electricity Board	236
British Steel Corporation	146
Post Office	-93
National Girobank	-6
British Airports Authority	15
British Railways Board	771
British Waterways Board	45
National Bus Company	-13
Scottish Transport Group	4
British Shipbuilders	73
Civil Aviation Authority	14
Water (England and Wales)	123
London Regional Transport	304
Other industries <sup>(3)</sup>	-400
<b>Total</b>	<b>529</b>

<sup>(1)</sup> Figures are shown rounded to the nearest £1 million.

<sup>(2)</sup> This figure is provisional and will be reviewed.

<sup>(3)</sup> Allowance for British Gas Corporation and British Airways which are expected to be privatised during 1986-87. Actual outturn will depend on decisions yet to be taken about the timing and circumstances of privatisation. No formal EFL is being set for either industry.

### Local Authorities

- 2.34 In 1985-86 local authorities in Great Britain have budgeted to exceed Cmnd 9428 provision for current expenditure relevant for Rate Support Grant by around £1 billion. For 1986-87 the Government has increased provision by nearly £600 million to £26.6 billion.
- 2.35 For 1986-87, aggregate exchequer grant to local authorities has been set at the same level in England as in 1985-86 (before holdback and penalties), with small increases in Scotland and Wales. In England and Wales the Government has announced that it will no longer set expenditure targets. It will be using tougher block grant mechanisms to encourage restraint in expenditure. In Scotland the system of guidelines and penalties will be retained.
- 2.36 No decision has been taken on provision for 1987-88 and 1988-89. The figures for those years shown in Table 2.2B and included in departmental totals in Table 2.2 therefore repeat those for 1986-87. They will be reconsidered in the 1986 Survey in the light of local authorities' budgets for 1986-87 and other factors. Account has been taken of this in setting the level of the Reserves.
- 2.37 Local authority capital expenditure is included within the totals for departmental expenditure in Table 2.2 and Table 2.2C. For 1985-86, local authority capital spending is forecast to be £3.7 billion and exceed Cmnd 9428 provision by some £600 million, but the position remains uncertain. Plans for spending in 1986-87 and 1987-88 have been increased to £3.7 billion and £3.9 billion and the new figure for 1988-89 is £4 billion. This means that spending will continue at or above the level of the forecast outturn for 1985-86.

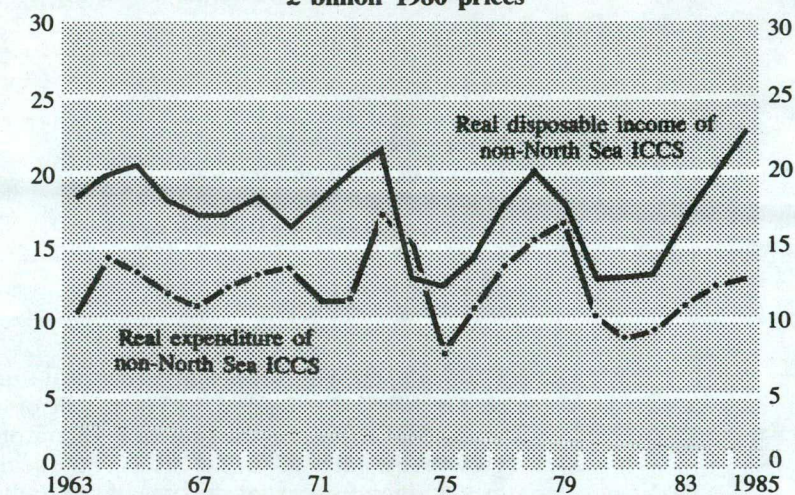
### Reserves

- 2.38 The plans include Reserves of £4½ billion in 1986-87, £6¼ billion in 1987-88 and £8 billion in 1988-89. The Reserves will be available to meet contingencies not covered elsewhere in the plans, including estimating changes.

in the ICCs figures from 28 November 1984). Chart 1.4 shows the recovery since 1981 in both the profit share and the rate of return, to a level in 1985 which is expected to be the highest seen since 1973. The figures in this chart exclude North Sea profits which have been rising strongly since 1975.

- 1.40 Company spending (on fixed investment and stocks taken together) has also risen in the last two years, but has not kept up with the growth in income. Industrial and commercial companies, excluding North Sea oil companies, are estimated to have run a financial surplus of some £4½ billion in 1984, with a further surplus of perhaps some £3½ billion in the first half of 1985. Chart 1.5 shows company income and spending.

**Chart 1.5**  
Company income and expenditure  
£ billion 1980 prices



Notes: Figures are approximate, adjusted for estimated effects of privatisation and do not take account of certain transactions between North Sea oil companies and other industrial and commercial companies. 1985 figures are partly estimated.

### Fixed investment

- 1.41 Business investment—adjusted for privatisation and excluding North Sea companies—was some 15 per cent higher in the first half of 1985 than in the same period of 1984: the first quarter figure was boosted by some bringing forward of expenditure before the reduction in capital allowances at the beginning of April. For 1985 as a whole, business investment will probably be 7-8 per cent higher than in 1984—close to the rate suggested by the June DTI intentions survey. For 1986, the strength of the recovery in profits, the buoyancy of the stock market and the generally healthy state of company liquidity all point to a further rise in business investment; though the indications are that it will not be as large a rise as seen in 1984 and 1985.
- 1.42 Public investment is expected to fall slightly in 1985 and may rise a little in 1986. Fixed investment (in real terms) for the economy as a whole may rise by 4 per cent in 1985 and 3½ per cent next year.

### Stockbuilding

- 1.43 In recent years both manufacturers and distributors have been reducing the volume of stocks relative to the level of their business. Important influences have been changes in inflation, interest rates and in the tax treatment of stocks. In particular the abolition of stock relief announced in the 1984 Budget has contributed to the recent fall in stock ratios, and may not yet have had its full impact. The stockbuilding figures for the whole economy also reflect the rundown of coal stocks during the coal strike. With recovery of production in the coal industry and some attenuation of the fall in the stock ratio in industry generally, there may be some limited additions to stocks in 1986. The change in stockbuilding may be equivalent to almost ½ per cent on GDP growth in 1986.



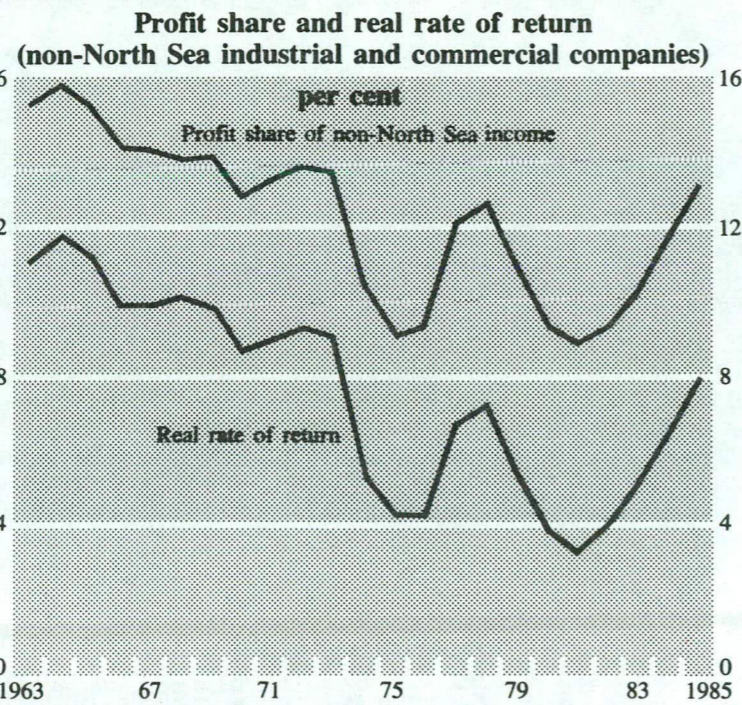
and stock sales ratios have continued to fall in both manufacturing industry and distribution, and published surveys suggest that they are not yet down to desired levels. The atypical behaviour of stockbuilding in the current cycle, while dampening down total growth in demand and output so far, means there is less danger of a stock correction causing or intensifying a cyclical slowdown.

**Personal income and expenditure**

- 1.36 Between the first halves of 1984 and 1985 real personal disposable income rose by about 2½ per cent, and consumers' expenditure rose by about 1½ per cent in real terms. The personal saving ratio, which fell by about 5 points between the end of 1980 and early 1983 has risen a little over the last year. In the last few months there has, however, been evidence of renewed strength in expenditure on consumer durables, with a high level of car registrations and retail sales of durable goods in the third quarter of 1985.
- 1.37 As inflation falls over the next year growth in real personal disposable income is likely to pick up further. Eventually the fall in inflation should lead to a lower personal saving ratio; but over the immediate future consumers' expenditure may not quite keep up with the growth in incomes. Consumer durable expenditure is normally highly responsive to changes in personal income, and could grow by 10 per cent or so in 1986; overall consumers' expenditure may rise by some 4 per cent in 1986.
- 1.38 Households' investment in dwellings may also grow quite strongly next year. Private housing starts have been running more than 5 per cent above last year's average in the last two quarters and also above completions. Despite the level of real interest rates, demand for mortgages has remained quite strong in 1985. The rising stock of dwellings under construction should be reflected in the figures for investment in new dwellings during 1986. Expenditure on repairs, maintenance and improvements of dwellings is also likely to reflect the growth in personal incomes.

**Company income and expenditure**

**Chart 1.4**



Notes: Adjusted for estimated effects of privatisation. 1985 figures are partly estimated.

- 1.39 Company incomes have grown very strongly since 1981. Between 1981 and 1984, profits of industrial and commercial companies (ICCs), net of stock appreciation and excluding North Sea oil companies, rose by almost 70 per cent, and the rate of return on assets of these companies rose from under 3½ per cent to 6½ per cent. Between the first half of 1984 and the first half of 1985 profits rose by about a quarter (excluding British Telecom's profits which were included

**Privatisation**

- 2.39 Net proceeds from privatisation are estimated to increase to £4½ billion in each of the three years, reflecting an expansion of the Government's programme. Receipts from the sale of British Gas Corporation are now included.

**Table 2.4 Public expenditure trends excluding special sales of assets**

	Planning total (£ billion) <sup>(1)</sup>		General government expenditure as % of GDP <sup>(3)</sup>
	Cash	Real terms <sup>(2)</sup> (base year 1984-85)	
1978-79	65.7	117.4	43
1979-80	78.0	119.1	44
1980-81	93.1	119.8	46
1981-82	104.6	122.2	46
1982-83	113.9	124.4	47
1983-84	121.5	126.9	46
1984-85	131.8	131.8	46
1985-86	136.7	130.2	45
1986-87	143.9	131.1	44
1987-88	148.7	130.9	43
1988-89	153.5	131.2	42

<sup>(1)</sup> Figures up to 1985-86 are outturn; for 1986-87 onwards they are plans.  
<sup>(2)</sup> Cash figures adjusted for general inflation as measured by the GDP deflator at market prices—base year 1984-85. The GDP deflator is assumed to increase by some 5 per cent in 1985-86, and by 4½, 3½ and 3 per cent respectively in the years 1986-87 to 1988-89.  
<sup>(3)</sup> General government expenditure as defined in the national accounts and presented in the MTFs. The background to the use of general government expenditure in this ratio was set out in Economic Trends, August 1985. Table 1.9 shows the relationship between general government expenditure and the public expenditure planning total.

**Chart 2.1**

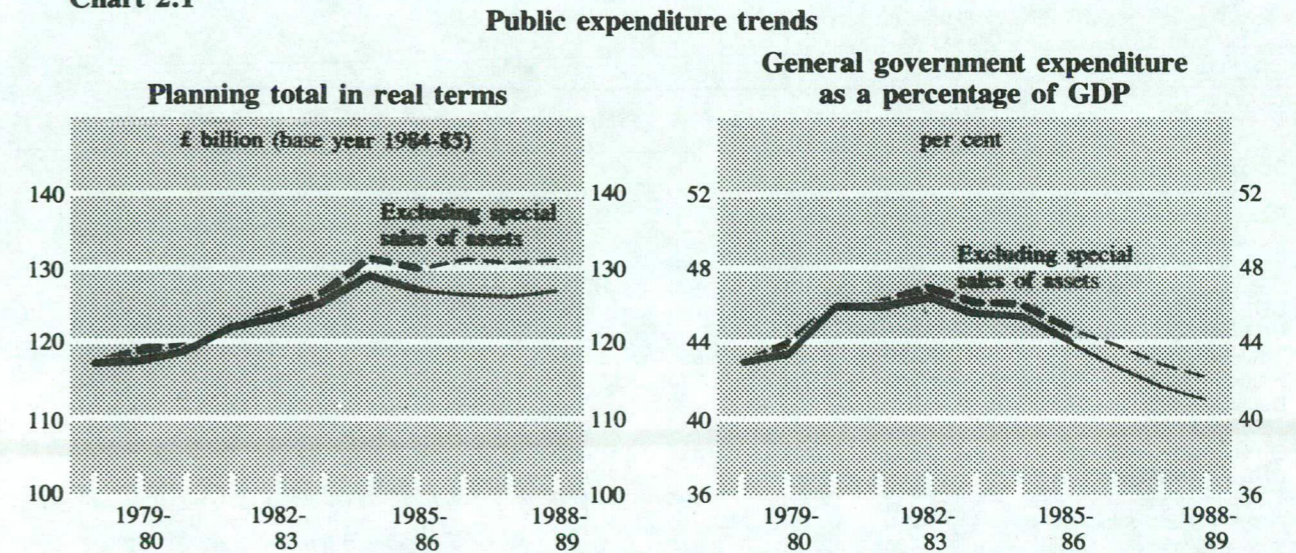




TABLE 2.2A. Nationalised industry external finance provided for by department

£ million

	White Paper (Cmnd 9428 adjusted for Budget measures)			Estimated outturn	Changes between Cmnd 9428 (adjusted) and outturn	Plans			Changes between Cmnd 9428 (adjusted) and plans	
	1985-86	1986-87	1987-88			1985-86	1986-87	1987-88	1988-89	1986-87
Ministry of Defence	10	—	—	10	0	—	—	—	—	—
Domestic Agriculture, Fisheries and Food <sup>(1)</sup>	10	10	10	10	0	10	10	10	0	0
Department of Trade and Industry <sup>(2)</sup>	320	190	130	470	+150	120	70	-70	-70	-70
Department of Energy	-760	-1 540	-1 490	200	+960	-690	-1 140	-880	+850	+350
Department of Transport <sup>(3)</sup>	1 260	1 130	1 080	1 050	-250	1 090	1 080	990	-40	0
DOE—Other Environmental Services	210	140	40	230	+10	140	30	30	0	0
Scotland <sup>(4)</sup>	250	130	10	260	+20	240	0	-120	+110	-10
Wales <sup>(5)</sup>	30	20	10	30	0	20	10	10	0	0
Adjustments <sup>(6)</sup>	—	—	—	—	—	-400	—	—	-400	—
<b>Total</b>	<b>1 320</b>	<b>80</b>	<b>-200</b>	<b>2 250</b>	<b>+900</b>	<b>530</b>	<b>70</b>	<b>-30</b>	<b>+450</b>	<b>+270</b>

## Notes:

<sup>(1)</sup> All Ministry of Agriculture, Fisheries and Food.<sup>(2)</sup> Includes all receipts from Post Office in respect of prepaid envelopes.<sup>(3)</sup> The Department of Transport figures for 1985-86 Cmnd 9428 (adjusted) and outturn include public expenditure which is both local authority relevant current spending and nationalised industries' external finance. The sums involved are about £130 million and £120 million for Cmnd 9428 adjusted and estimated outturn respectively. In 1986-87 and subsequent years the public expenditure figures count this money as local authority relevant only.<sup>(4)</sup> As for footnote <sup>(3)</sup>; the sums involved are £40 million for both Cmnd 9428 adjusted and estimated outturn.<sup>(5)</sup> As for footnote <sup>(3)</sup>; the sums involved are £10 million for both Cmnd 9428 adjusted and estimated outturn.<sup>(6)</sup> Adjustment in 1986-87 is in respect of BGC and BA which are due to be privatised during that year (see footnote <sup>(3)</sup> to Table 2.3).

TABLE 2.2B. Local authority relevant current expenditure provided for by department

£ million

	White Paper (Cmnd 9428 adjusted for Budget measures)			Estimated outturn	Changes between Cmnd 9428 (adjusted) and outturn	Plans			Changes between Cmnd 9428 (adjusted) and plans	
	1985-86	1986-87	1987-88			1985-86	1986-87	1987-88	1988-89	1986-87
Domestic Agriculture, Fisheries and Food <sup>(1)</sup>	90	90	90	100	+10	100	100	100	+10	+10
Department of Trade and Industry	60	70	70	70	+10	70	70	70	0	0
Department of Employment	80	80	80	90	+10	90	90	90	+10	+10
Department of Transport <sup>(2)</sup>	1 540	1 760	1 730	1 800	+250	1 750	1 750	1 750	-10	+20
DOE—Housing	110	120	120	130	+20	150	150	150	+30	+30
DOE—Other Environmental Services	2 420	2 570	2 590	2 600	+200	2 640	2 640	2 640	+70	+50
Home Office	3 580	3 730	3 770	3 750	+150	3 860	3 860	3 860	+130	+90
Department of Education and Science	10 260	10 610	10 730	11 000	+700	10 820	10 820	10 820	+210	+90
Office of Arts and Libraries	350	380	380	400	+60	400	400	400	+20	+10
DHSS—Health and Personal Social Services	2 330	2 470	2 490	2 400	+100	2 530	2 530	2 530	+60	+40
DHSS—Social Security	110	110	110	150	+40	140	140	140	+30	+30
Scotland <sup>(2)</sup>	2 850	2 910	2 940	2 950	+100	2 970	2 970	2 970	+60	+30
Wales <sup>(2)</sup>	1 120	1 150	1 190	1 150	0	1 160	1 160	1 160	+10	-30
Adjustments	590	—	—	—	-590	—	—	—	—	—
<b>Total<sup>(3)</sup></b>	<b>25 490</b>	<b>26 030</b>	<b>26 300</b>	<b>26 550</b>	<b>+1 050</b>	<b>26 680</b>	<b>26 680</b>	<b>26 680</b>	<b>+630</b>	<b>+390</b>

## Notes:

<sup>(1)</sup> All Ministry of Agriculture, Fisheries and Food except for less than £1 million in each year. These sums are Welsh Office Agricultural Department provision (also in the total for Wales).<sup>(2)</sup> Includes nationalised industries external finance described in footnotes <sup>(3)</sup>, <sup>(4)</sup> and <sup>(5)</sup> to Table 2.2A together with the sums involved.<sup>(3)</sup> Excludes double counting referred to in footnote <sup>(1)</sup>.

## Prospects

- 1.30 The rise in RPI inflation during the latter part of the last pay round seems to have had little effect on pay settlements: no doubt in part because it was widely expected that inflation would soon fall back from the peak levels of the early summer. RPI inflation at the start of the new pay round has been roughly a point higher than it was a year ago; but with companies finding it increasingly difficult to raise prices, and a substantial fall in inflation next year widely forecast, there may not be much change in the general level of pay settlements in the current pay round. The prospect is for strong growth in real earnings, 3-4 per cent, over the next year. Once more, most of those in work will enjoy a substantial rise in living standards, following three years in which real earnings have risen on average by almost 2½ per cent a year. No major change in the growth of labour costs is forecast for 1986.
- 1.31 The outlook for inflation over the next year is affected by world prices and the exchange rate, both in terms of costs and in terms of UK producers' and distributors' ability to raise prices on the domestic market. These factors point to a significant fall in inflation from now on, reversing the situation in the first half of 1985. The behaviour of competitors' prices—the price of imported manufactures fell by about 5½ per cent between March and September—means that profit margins are unlikely to go on rising at the same rate as in the first half of 1985.
- 1.32 The forecast is for retail prices to be about 5½ per cent higher in the last quarter of 1985 than a year earlier. As compared with the forecast published in the FSBR in March, the housing component of the RPI has risen rather more than expected and food prices rather less. Next year inflation should continue to fall, and by the end of 1986 inflation may be around 3½ per cent.

Table 1.4 Retail prices index

	Weight in 1985	Percentage changes on a year earlier		
		1984 Q4	1985 Q4 ( <sup>1</sup> )	1986 Q4
Food	20	3½	3½(4 )	3½
Nationalised industries <sup>(2)</sup>	9	4	5(5½)	5
Housing	14	10½	9½(7 )	4½
Other	57	4	5(5 )	3½
<b>Total</b>	<b>100</b>	<b>4¼</b>	<b>5½(5 )</b>	<b>3½</b>

<sup>(1)</sup> 1985 FSBR forecast in brackets.<sup>(2)</sup> Includes water; BT is included in "other" prices throughout.

- 1.33 The deflator of GDP at market prices, which increased by 4½ per cent in 1984-85, is expected to rise by 5 per cent in 1985-86 and by 4½ per cent in 1986-87.

## Demand and Activity

- 1.34 Economic activity rose by about 2½ per cent in 1984, when the coal strike depressed economic growth by over 1 per cent. After allowing for the estimated effects of the strike, the average measure of GDP grew by 3½ to 4 per cent in the year to the first half of 1985, and at an annual rate of about 3½ per cent between the first half of 1983 and the first half of 1985.
- 1.35 Over the year to the first half of 1985 both exports and business investment made a major contribution to the growth in demand. Consumers' expenditure, which had flattened out after the middle of 1983, has recently been showing signs of renewed growth. Falling stock levels during much of 1984 and early 1985 reflected the impact of the coal strike; but quite apart from this, stock output

## Composition of demand



Table 1.3 Price indices

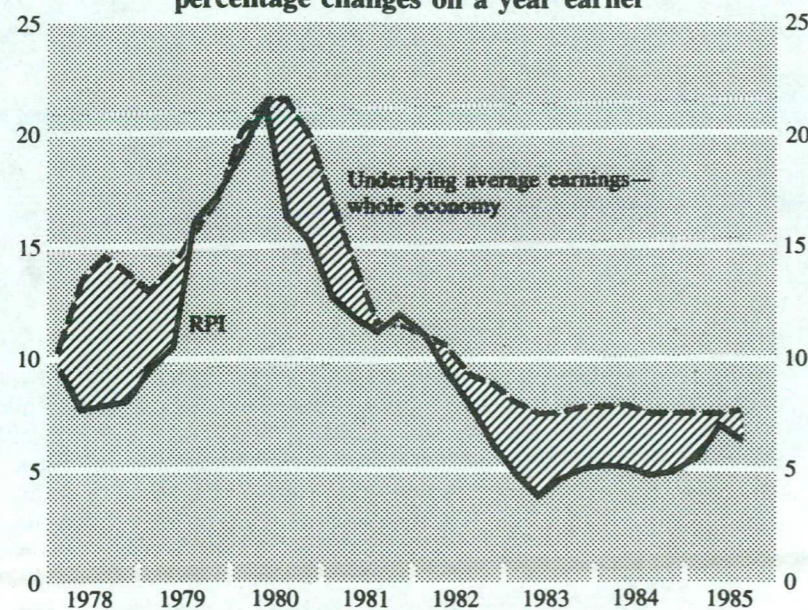
	Percentage changes on a year earlier			
	RPI	GDP deflator at market prices	Producer price indices <sup>(1)</sup> : input prices	output prices
1983	4.6	5.1	7.9	5.4
1984	5.0	4.5	8.7	5.6
1985 Q1	5.5	4.7	14.7	6.4
1985 Q2	7.0	5.3	6.8	6.4
1985 Q3	6.3	n/a	1.2 <sup>(2)</sup>	6.4 <sup>(2)</sup>
1985 September	5.9	n/a	0.1 <sup>(2)</sup>	6.3 <sup>(2)</sup>
October	n/a	n/a	-3.8 <sup>(2)</sup>	6.1 <sup>(2)</sup>

<sup>(1)</sup> Manufacturing industry other than food, drink and tobacco.

<sup>(2)</sup> Provisional.

the three months to August are estimated to have been some 7 per cent higher than a year earlier, having risen only about 5 per cent in total in the two years between 1982 and 1984. However the true extent of the acceleration in labour costs is uncertain, given the margin of uncertainty around estimates of manufacturing output for the recent past, and the indication from the CBI Surveys that output may indeed have been stronger during 1985, and hence productivity higher, than the official figures currently show. Chart 1.3 shows changes in retail prices and earnings in recent years.

Chart 1.3 Retail prices and earnings percentage changes on a year earlier



1.29 For the economy as a whole underlying growth in earnings (ie abstracting from special factors such as the coal strike) was about 7½ per cent in the pay round ending in the summer of 1985, virtually the same as in the previous two years. Underlying growth in output per head has probably been around 2-2½ per cent, while the abolition of NIS was worth about 1 per cent off labour costs in the first three quarters of 1985, compared with the corresponding period in 1984. Thus over this period, after making allowance for the coal strike, unit labour costs for the economy as a whole have grown at a rate of around 4 per cent.

Table 2.2C Other departmental spending

Departments (excluding local authority relevant current expenditure and nationalised industries' external finance)	White Paper (Cmnd 9428 adjusted for Budget measures)			Estimated outturn 1985-86	Changes between Cmnd 9428 (adjusted) and outturn	Plans				Changes between Cmnd 9428 (adjusted) and plans	
	1985-86	1986-87	1987-88			1985-86	1986-87	1987-88	1988-89	1986-87	1987-88
Ministry of Defence	18 050	18 520	18 820	18 200	+200	18 520	18 820	18 990	0	0	
FCO—ODA	1 260	1 300	1 320	1 250	0	1 320	1 350	1 390	+20	+30	
FCO—Other	610	600	620	620	+10	640	660	700	+40	+40	
European Community	750	640	830	800	+50	650	1 150	950	+10	+320	
IBAP and other CAP expenditure	1 440	1 280	1 300	1 900	+450	1 550	1 640	1 670	+270	+340	
Domestic Agriculture, Fisheries and Food	750	710	700	760	+20	720	710	720	+10	+10	
Forestry Commission	50	50	50	50	0	50	50	60	0	0	
Department of Trade and Industry	1 110	1 120	950	1 100	0	1 100	950	940	-20	0	
Export Credits Guarantee Department	130	80	-40	340	+210	280	170	100	+200	+210	
Department of Energy	690	600	610	820	+130	800	580	590	+200	-30	
Department of Employment	3 290	3 750	3 940	3 250	-50	3 670	3 730	3 910	-80	-210	
Department of Transport	1 870	1 950	1 990	1 800	-50	1 980	2 020	2 090	+30	+30	
DOE—Housing	2 160	2 410	2 510	2 550	+400	2 610	2 690	2 730	+200	+180	
DOE—Property Services Agency	-100	-100	-110	-110	-10	-90	-110	-110	+10	0	
DOE—Other Environmental Services	810	860	870	1 100	+300	840	850	880	-20	-20	
Home Office	1 010	1 060	1 100	1 000	0	1 100	1 150	1 190	+40	+50	
Lord Chancellor's Department	540	570	610	540	0	590	650	700	+20	+40	
Department of Education and Science	3 340	3 420	3 510	3 450	+150	3 510	3 590	3 660	+90	+80	
Office of Arts and Libraries	290	330	340	300	+10	340	350	360	+10	+10	
DHSS—Health and Personal Social Services	14 160	14 950	15 620	14 300	+100	15 200	15 920	16 610	+250	+300	
DHSS—Social Security	39 930	41 540	43 550	41 100	+1 100	42 800	44 300	45 800	+1 260	+750	
Civil Superannuation	1 070	1 110	1 230	1 050	0	1 180	1 310	1 400	+70	+80	
Scotland	4 100	4 300	4 370	4 200	+100	4 330	4 420	4 570	+30	+50	
Wales	1 600	1 710	1 730	1 650	+50	1 730	1 760	1 820	+20	+30	
Northern Ireland	4 250	4 460	4 600	4 300	+50	4 520	4 690	4 820	+60	+90	
Chancellor's Departments	1 750	1 850	1 870	1 800	+50	2 010	2 050	2 070	+160	+180	
Other Departments	360	380	400	350	-10	450	460	470	+70	+60	
Adjustments <sup>(1)</sup>	-260	-250	-250	-300	-40	-250	-250	-260	0	0	
<b>Total</b>	<b>105 000</b>	<b>109 200</b>	<b>113 000</b>	<b>108 100</b>	<b>+3 000</b>	<b>112 200</b>	<b>115 500</b>	<b>118 600</b>	<b>+2 900</b>	<b>+2 500</b>	

<sup>(1)</sup> Double counting of agricultural spending in Scotland and Wales which is also included in the totals for Domestic Agriculture, Fisheries and Food and IBAP etc.



### 3. National Insurance Contributions

3.01 The Secretary of State for Social Services has conducted his annual review of national insurance contributions, as required by the provisions of the Social Security Act 1975. Full details are set out in the statement made by the Secretary of State in connection with the necessary order, laid on 12 November 1985 with an accompanying report by the Government Actuary. The main proposals are as follows:

- The Class 1 insurance rates for employers and employees should remain unchanged for 1986–87.
- The lower earnings limit should be uprated, from April 1986, from the present level of £35.50 a week to £38 a week in line with the single rate retirement pension.
- The upper earnings limit should be correspondingly increased from £265 a week to £285 a week.
- The earnings limits for the reduced rate brackets should be similarly uprated from £55, £90 and £130 a week to £60, £95 and £140 a week.

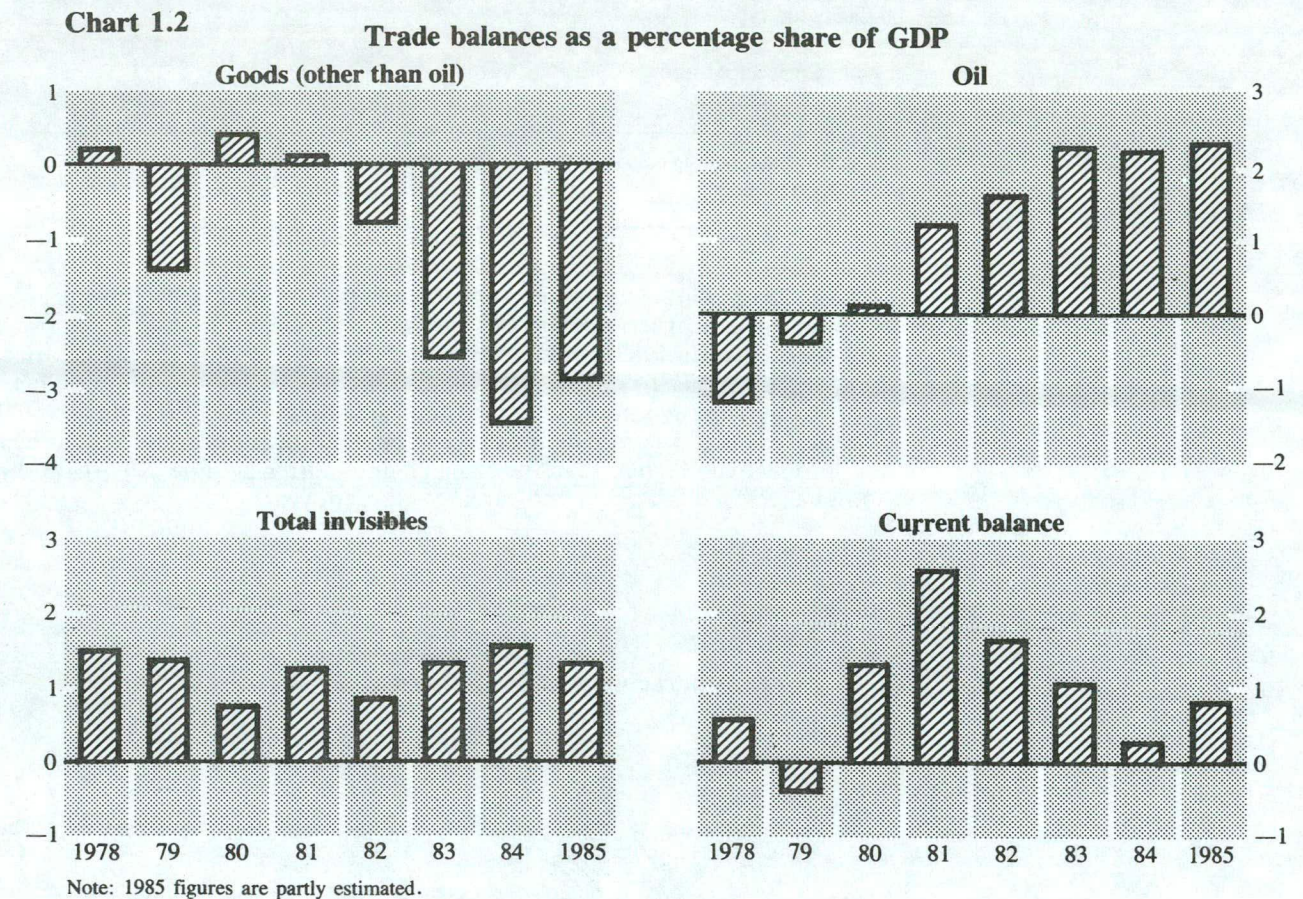
This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate on all earnings	
	Employees	Employers
Below £38	(No NICs payable)	
£38 to £59.99	5	5
£60 to £94.99	7	7
£95 to £139.99	9	9
£140 to £285	9	10.45
Above £285	9 on £285	10.45

3.02 In accordance with normal practice, the Government Actuary has been provided with working assumptions for use in preparing his report. These assumptions, which are not forecasts or predictions, are summarised in his report and include the following:

- The number of unemployed (GB, excluding school leavers etc) averages 3.05 million in 1985–86 and 3 million in 1986–87. (3 million has also been assumed for 1987–88 and 1988–89 in the estimates of social security spending shown in Part 2).
- The increase in average earnings is expected to decline from about 8 per cent between tax year 1984–85 and 1985–86 to about 7 per cent between tax years 1985–86 and 1986–87.
- Benefits will be uprated in July 1986 on the basis of the increase in the RPI over the eight months ending in January 1986. This is consistent with the proposal in the Green paper "Reform of Social Security" (Cmd 9517), that the annual uprating of benefits should move to the beginning of April and that as an interim measure, the uprating due in November 1986 would be brought forward to July 1986.

1.25 The outlook is for a sizeable current account surplus in 1985, much as expected in the Budget forecast and for another substantial surplus in 1986. The profile of the surplus would be smoother if allowance were made for the coal strike which reduced the surplus by £2½ billion and £1½ billion in 1984 and 1985 respectively. Table 1.2 summarises the forecast of the main components of the current account. Chart 1.2 shows the components of the account over a longer period, relative to GDP.



#### Inflation

1.26 As shown in Table 1.3 there has been a wide disparity in the rate of change of different price indices over the last year. While the RPI rose by 7 per cent between the second quarter of 1984 and the second quarter of 1985, the deflator of GDP at market prices — which measures the rise in prices of UK inputs, above all of wages and profits — increased by little more than 5 per cent over the same period. Producer input prices have fallen since February, while producer output prices have continued to rise, albeit at a slower rate since the spring.

1.27 The differences between the indices reflect two factors in particular. Firstly changes in building society mortgage rates and house prices affect the RPI but not the other price indices. Secondly, the price indices all show different speeds of response to changes in the exchange rate and in world prices. The producer input price index is the most sensitive to the latter influences in the short term: both the fall in the sterling index up to February of this year and its subsequent recovery have been picked up more quickly here than in the other indices.

#### Costs

1.28 Input costs have fallen over the last year because of the weakness in world prices of commodities (including oil), and because of a higher level of sterling. The growth in labour costs, at least in manufacturing, appears to have increased over the last year. As recorded, wage costs per unit of output in manufacturing in



year export prices are expected to rise at much the same rate as import prices. The terms of trade in goods (other than fuel) may therefore remain close to the current level, which is some 4 per cent better than the 1983 and 1984 average. The terms of trade in services may follow broadly the same pattern.

#### Trade volumes (goods other than oil and erratics)

1.20 Export volumes rose strongly in the second half of 1984 at a time when world trade was also rising strongly. Since then, during a period of slower growth in world trade, they have fallen back somewhat but in the three months to September were 7½ per cent higher than a year earlier. Next year, exports are expected to rise gently. World trade is expected to continue expanding. The worsening of price and cost competitiveness this year may restrain exports next year, but experience of the past five years suggests that export volumes have not been very responsive to price and cost changes. Exports of goods are forecast to rise by some 2–3 per cent in volume terms in 1986, after a rise of 7½ per cent in 1985.

1.21 Although domestic demand for manufactures has probably been growing more slowly this year, the level of imports has risen less than expected. The deficit on trade in manufactures in 1985 is now expected to be much the same as in 1984. There may be a fairly sharp rise in imports in 1986 due to further increases in domestic demand, and to rising import penetration in manufactures—the main factor in which is the continuation of a longstanding trend in most of the developed economies. Imports of goods are projected to increase in 1986 by 5–6 per cent in volume terms, compared with 4 per cent in 1985.

#### Trade in oil

1.22 Domestic demand for oil was boosted temporarily in 1984 and in the early months of 1985 by the coal strike. In underlying terms demand for oil has been broadly flat, despite rising GDP, as the economy continues to adjust to the large rises in oil prices in the seventies. This decline in oil demand, relative to GDP, may continue next year. UK oil production may be at much the same level this year as in 1984 and there may be little change next year. Net oil export volume is expected to be higher in 1986. But with sterling oil prices currently below the average so far in 1985, and futures markets pointing to some further decline, the balance of trade in oil at current prices may fall a little (see Table 1.2).

#### Invisibles

1.23 The balance on services has been improving since 1982. Travel and tourism earnings, strong this year, are particularly sensitive to price changes. Some improvement in the services terms of trade is expected to be broadly offset by a deterioration in the services balance at constant prices. The profile of the transfers balance depends largely on the timing and size of government transactions with the EC.

1.24 The surplus on interest, profits and dividends (IPD) increased in 1984 but fell back in the first half of 1985. The data for both 1984 and 1985 are however liable to substantial revision. In particular, the implied rate of return on direct investment overseas looks low and it has been assumed that the provisional data for the first half of 1985 will be revised upwards. The IPD balance in 1985 may be similar to 1984. A rise in UK interest rates relative to those overseas, and an increase in North Sea debits, are offset by a higher level, for 1985 as a whole, of net overseas assets. With a further rise in net overseas assets and little change in relative returns, the IPD balance should increase in 1986.

#### Current account

Table 1.2 Current account — balance of payments basis

					£ billion
	Manu- factures	Oil	Other goods	Invisibles	Total
1984	-4	7	-7	5	1
1985	-3½	8½	-7	5	3
1986	-4½	8	-5½	6	4

The RPI is forecast to be 5½ per cent higher in the last quarter of 1985, than a year earlier, and it is assumed that that same level holds for January 1986. On that basis the movement in prices over the eight months to January 1986 would be of the order of 1 per cent.

3.03 The estimated effects of the proposed changes are shown in the table below.

Table 3.1 Estimated total payments by employers and employees of national insurance contributions in 1985–86 and 1986–87<sup>(1)</sup>

	Great Britain (£ million)		
	Employers	Employees	Total
National insurance contributions			
1985–86 <sup>(2)</sup>	11 420	10 670	22 090
1986–87	12 110	11 460	23 570
<b>Total change</b>	<b>+ 690</b>	<b>+ 790</b>	<b>+ 1 480</b>
<i>of which:</i>			
Change in contributions from increased earnings, etc <sup>(3)</sup>	+ 900	+ 870	+ 1 770
Change in contributions from full year effect of 1985 Budget measures <sup>(4)</sup>	- 50	- 170	- 220
Change in contributions from increase in earnings limits	- 160	+ 90	- 70

<sup>(1)</sup> Figures are rounded to the nearest £10 million. Detailed figures for national insurance contributions are included in the Government Actuary's report on the draft of the Social Security (Contributions, Rating) Order 1985. As in previous years, figures in this table are on a receipts basis excluding self employed and voluntary contributions. Figures include NHS and Employment Protection Allocation contributions. Employers' contributions are net of deductions in respect of statutory sick pay.

<sup>(2)</sup> Excludes £30 million national insurance surcharge receipts, paid in respect of liabilities which accrued in the tax year 1984–85.

<sup>(3)</sup> Including population and employment changes.

<sup>(4)</sup> The difference between the full year effect of the measures in 1986–87 and the part year effect in 1985–86.



## 4. The Revenue Effects of Illustrative Tax Changes

- 4.01 The tables below show various illustrative tax changes and estimates of their direct revenue effects. Estimates are given of the effect on taxpayers' liabilities (full year effect) and of the effect on receipts of tax in 1986-87 (first year effect).
- 4.02 The effect of tax changes depends on economic variables, such as prices, earnings and consumer expenditure. The estimates shown are consistent with the economic forecast given in Part 1.
- 4.03 An illustrative rate of inflation of 5½ per cent has been used to show the effects of indexation and revaluation. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1985.
- 4.04 The tables show estimates of the *direct* effects of tax changes. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effect is not, therefore, the same as the effect on the PSBR. The approach used here to estimate the direct effect of tax changes is explained in note (a) to Table 4.2 of the Financial Statement and Budget Report published in March 1985.

### Indexation of Allowances, Thresholds and Bands for 1986-87

- 4.05 Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1986-87 after 5½ per cent indexation. Rounding follows the rules laid down in the 1980 Finance Act for income tax and the 1982 Finance Act for capital transfer tax and capital gains tax. Estimates of the revenue effects of these changes are shown in Table 4.4.

course of 1985 should help net exports next year to offset the slowdown in domestic demand, but may have relatively little immediate impact on the current account deficit.

- 1.12 Output is picking up in both Germany and France. Continuing progress in reducing inflation in the major European countries, coupled with recent reductions in interest rates, should make for faster growth in domestic demand in 1986. Weakness in commodity prices, especially oil, and the appreciation of the yen this year will reduce Japanese inflation; in consequence, Japanese growth is likely to come more from domestic demand and less from exports than in recent years.
- 1.13 Little increase in the demand for oil is expected in 1986 and in view of the difficulties OPEC is experiencing in sharing present levels of output between its members, there could well be some excess of supply over demand, which could bring about a fall in oil prices, as indicated by the futures market.
- 1.14 In developing countries, weak terms of trade and continuing high debt servicing costs will constrain domestic demand and import growth. The lower dollar will ease debt burdens, but major adjustment problems will remain. Some OPEC countries are also likely to have to cut back their imports.
- 1.15 Overall, the major economies should grow by about 3 per cent in 1986.

Table 1.1 World economy

	Percentage changes on a year earlier		
	1984	1985	1986
Major countries*:			
GNP	5	3	3
Consumer prices	4½	4	3½
World import volume	8½	5	5
World trade in manufactures (UK-weighted)	8½	5	5

\*USA, Canada, Japan, France, Germany, Italy and UK.

### The Exchange Rate and the Balance of Payments

- Sterling**
- 1.16 The average level of the sterling index since March has been close to the average of 1983 and 1984. For this forecast it is assumed not to change much from this level.
- Relative costs and prices**
- 1.17 Costs and prices have been rising rather faster in the UK than in most of the other major economies and may do so again in 1986. With the exchange rate little different from the 1983 and 1984 level, and labour costs per unit of output in the UK increasing relative to those overseas, manufacturers' price and cost competitiveness worsened to some extent in the course of 1985.
- Trade prices and the terms of trade (excluding fuel)**
- 1.18 Import prices of goods have on average fallen over 7½ per cent since their peak in March, largely because of the appreciation of sterling but also because of weak world commodity prices. Over the same period, prices of imported manufactures have fallen by 5½ per cent. This is less than the rise in the exchange rate, suggesting that as usual importers widened their profit margins as sterling rose. In the year to the final quarter of 1986, import prices are expected to rise slowly (perhaps by 3-4 per cent), reflecting a low rate of inflation in the major industrial countries.
- 1.19 Export prices have barely risen since the end of 1984, but there has probably been only a limited fall in exporters' margins because rises in labour costs have been partly offset by falls in the cost of imported materials. Over the next

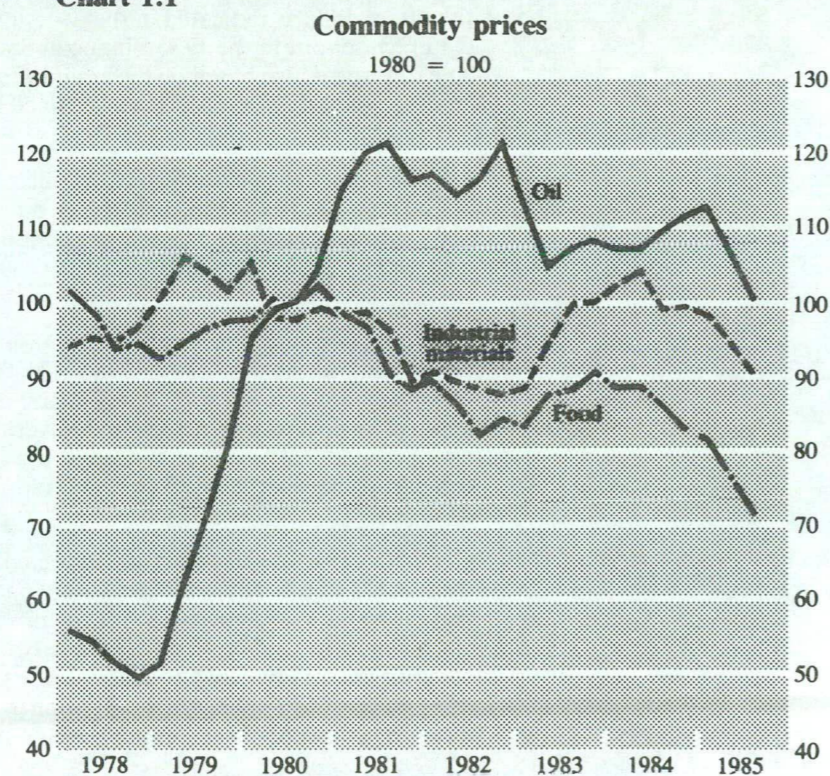


## Recent developments

## The World Economy

- 1.08 World trade and output are growing in a steady but unspectacular way. Real GNP in the major seven countries (including the UK) may be nearly 3 per cent higher in 1985 than in 1984, and world import volumes could increase by 5 per cent. Whereas the rapid expansion in world activity in 1984 was heavily dependent on the US, the growth differential between the US and Europe has been virtually eliminated over the past twelve months. The slowdown in US growth has contributed to lower world interest rates.
- 1.09 At the same time, the rate of inflation continues to fall: consumer prices in the major countries may rise by less than 4 per cent this year, compared with the 4½ per cent increase in 1984. This fall has been aided by weak commodity prices (see Chart 1.1), and bumper harvests which have pushed food prices to their lowest levels for almost a decade. World oil prices expressed in dollars have fallen only modestly in 1985 compared with 1984 and there has been some recovery in recent months. This firmness has occurred despite a marked imbalance between production capacity and demand, in part because of large cuts in production by some Gulf producers. However, the weakening of the dollar since early 1985 has brought about some adjustment of real oil prices.
- 1.10 The fall (of over 15 per cent) in the dollar's effective rate since its peak levels in February was helped by some central bank intervention. Even so, the dollar is still no lower than at the beginning of 1984. The US current account is in large deficit, reflecting the substantial difference in domestic demand growth between the US and other OECD countries since 1983, and the strong dollar.

Chart 1.1



## Prospects

- 1.11 The growth of private investment and consumers' expenditure in the US, although still faster than in other OECD countries, has slowed down compared with 1984. Domestic demand may weaken in 1986, but a recession seems unlikely: interest-sensitive sectors of the economy such as housing investment and consumer durables may still have some benefit to come from the fall in interest rates over the past year; inflation remains low; consumers' confidence is still relatively buoyant; and fiscal policy seems likely to be tightened only gradually. The decline in the dollar's exchange rate in the

Table 4.1 Income tax

	1985-86 £	1986-87 £
<b>Allowances</b>		
Single and wife's earned income allowance	2 205	2 335
Married allowance	3 455	3 655
Additional personal and widow's bereavement allowance	1 250	1 320
Single age allowance	2 690	2 840
Married age allowance	4 255	4 495
Aged income limit	8 800	9 300
<b>Income tax rates</b>		
	<b>Bands of taxable income</b>	
Per cent	1985-86 £	1986-87 £
30	0-16 200	0-17 100
40	16 201-19 200	17 101-20 300
45	19 201-24 400	20 301-25 800
50	24 401-32 300	25 801-34 200
55	32 301-40 200	34 201-42 600
60	over 40 200	Over 42 600

Table 4.2 Capital transfer tax

Rate on death	Lifetime rate	Bands of chargeable value	
Per cent	Per cent	1985-86 £'000	1986-87 £'000
Nil	Nil	0-67	0-71
30	15	67-89	71-94
35	17½	89-122	94-129
40	20	122-155	129-164
45	22½	155-194	164-205
50	25	194-243	205-257
55	27½	243-299	257-316
60	30	over 299	over 316

Table 4.3 Capital gains tax

	1985-86 £	1986-87 £
Annual exempt amount:		
Individuals	5 900	6 300
Trusts	2 950	3 150

Table 4.4 Costs of indexation

£ million at forecast 1986-87 prices, incomes and capital values

	First year cost	Full year cost
Indexation of income tax allowances and thresholds	1 115	1 425
Of which:		
Increases in main personal allowances	1 000	1 245
Increase in the basic rate limit <sup>(1)</sup>	75	95
Increases in further higher rate thresholds <sup>(1)</sup>	40	85
Indexation of capital transfer tax thresholds and bands	15	45
Indexation of capital gains exempt amounts	Nil	10

<sup>(1)</sup> Additional costs after previous changes have been introduced.



### Direct Revenue Effects of Illustrative Changes in Income Tax and Corporation Tax

- 4.06 Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax. For income tax allowances and thresholds, these assume that the previous year's levels have been indexed. The estimates show the additional cost of making each change on top of indexation.
- 4.07 Estimated revenue effects are rounded, generally to the nearest £1m or £5m. It should not be assumed, however, that they are accurate to this degree.
- 4.08 Effects of other sizes of tax changes can be estimated by assuming linearity over a reasonably wide range. For example, the cost or yield of a change in an allowance of £200 will be approximately twice the level for £100. The cost of increasing higher rate thresholds, however, is less linear; the extra costs tend to reduce as the thresholds rise. For this reason, effects are given for both 1 per cent and 10 per cent changes in higher rate thresholds and for both increasing and decreasing thresholds.
- 4.09 The total cost of a group or package of income tax allowance changes can be broadly assessed by adding together the revenue effects for each change. However, if allowances are increased substantially and combined with a reduction in basic or higher rates, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready-reckoner should be considered only as a very general guide.

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## 1. Economic Prospects for 1986

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### Summary

- |                                     |  |
|-------------------------------------|--|
| <b>World economy</b>                | 1.01 The world economy in the last two years has made substantial, but uneven, gains in output and trade. The rate of inflation has fallen further, helped by steady macro-economic policies in most OECD countries, and weak commodity prices. The recovery in Europe is now strengthening and, despite continuing international debt problems and some major payments imbalances, growth in world output and trade should continue.  |
| <b>Assumptions</b>                  | 1.02 The forecast is based on the usual assumption that macro-economic policies in the UK will be as indicated in the Medium Term Financial Strategy (MTFS), set out in the 1985 Financial Statement and Budget Report (FSBR). The forecast is also based on the assumption that the effective exchange rate will not change much from its average level since March.  |
| <b>Inflation, demand and output</b> | 1.03 Inflation is set to decline further: an increase in the RPI of about 5½ per cent in the current quarter is forecast to fall to under 4 per cent in the course of 1986. Money GDP growth at 9 per cent in 1985-86 and 7 per cent in 1986-87, is expected to be close to that foreshadowed in the MTFS.   |
|                                     | 1.04 Business fixed investment and exports were the fastest growing elements of demand up to the first half of 1985. The fall in inflation in prospect, together with some slowdown in UK exports, is expected to lead to some shift away from exports towards domestic demand. Overall, and with a contribution of almost ½ per cent from the ending of the coal strike, output growth in 1986 is forecast to be close to the 3 per cent annual average experienced since 1981.   |
| <b>Labour market</b>                | 1.05 Further rises in employment are expected as a result of continued growth in the economy and helped by the measures to increase the demand for labour in the 1984 and 1985 Budgets. With the prospect of some slowdown in labour supply growth, and with more people benefiting from employment measures, the trend in unemployment should continue to be more favourable than over the last two years. But no major change is in prospect for the growth of earnings in 1986, implying substantial further increases in real wages. |
| <b>Balance of payments</b>          | 1.06 A further sizeable surplus is expected to be earned on current account in 1986, helped by recent gains to the terms of trade.   |
| <b>Borrowing</b>                    | 1.07 For the current financial year, 1985-86, total government borrowing (the PSBR) is forecast, subject to a substantial margin of uncertainty, at £8 billion, £1 billion higher than forecast at Budget-time. Lower oil revenues are likely to be only partially offset by higher revenues elsewhere. For 1986-87, the forecast follows the MTFS in making the assumption that the PSBR will be set at 2 per cent of GDP, equivalent to £7½ billion.   |



**Table 4.5 Direct effects of illustrative changes in income tax and corporation tax <sup>(1)</sup>**

£ million at forecast 1986-87 income levels

	First year cost/yield	Full year cost/yield
<b>Income tax <sup>(2)</sup></b>		
<b>Rates</b>		
Change basic rate by 1p <sup>(3)</sup>	1 125	1 200
Change all higher rates by 1p	50	105
<b>Personal allowances</b>		
Change single and wife's earned income allowance by £100	290	360
Change married allowance by £100	260	320
Change single age allowance by £100	25	31
Change married age allowance by £100	20	25
Change aged income limit by £200	3	4
Change all main personal allowances by 1 per cent	175	215
Change all main personal allowances by 10 per cent:		
increase (cost)	1 675	2 075
decrease (yield)	1 725	2 150
<b>Higher rate thresholds</b>		
Change all higher rate thresholds by 1 per cent:		
increase (cost)	16	29
decrease (yield)	17	30
Change all higher rate thresholds by 10 per cent:		
increase (cost)	145	265
decrease (yield)	190	335
<b>Allowances and thresholds</b>		
Change all main personal allowances and higher rate thresholds by 1 per cent	190	245
Change all main personal allowances and higher rate thresholds by 10 per cent:		
increase (cost)	1 800	2 325
decrease (yield)	1 950	2 500
<b>Corporation tax <sup>(4)</sup></b>		
Change full rate by 1 percentage point	180	310
Change small companies' rate by 1 percentage point <sup>(5)</sup>	16	30

<sup>(1)</sup> The estimated revenue effects of changes in the basic rate of income tax and in the main personal allowances of 10 per cent are rounded to the nearest £25m; other effects over £50m are rounded to the nearest £5m; effects of less than £50m are rounded to the nearest £1m.

<sup>(2)</sup> Changes are from the indexed levels of allowances and thresholds shown in table 4.1. Percentage changes are, however, of 1985-86 levels.

<sup>(3)</sup> Including the effect of the change on receipts of Advance Corporation Tax and on consequent liability to Mainstream Corporation Tax.

<sup>(4)</sup> Assessment to Corporation Tax normally relates to the preceding year. These are, therefore, the changes to revenue that would occur if the changed rates were applied to forecast 1985-86 income levels.

<sup>(5)</sup> These figures ignore any possible associated changes in the imputation system.



**Indirect Taxes**

- 4.10 Figures for changes in excise duties (Table 4.6) are shown in two sections. The first shows the extra revenue from the individual duties if they were to be increased by exactly 5½ per cent, together with the price increase that would result (after allowing for consequential VAT). The second shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.
- 4.11 Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.
- 4.12 Within limits the illustrative changes for specific duties shown here can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively larger, and scaled estimates will be less reliable.

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**Table 4.6 Revenue effects of indirect tax changes**

(£ million at forecast 1986-87 price and income levels)

	Current level of duty on typical item	5½% Revalorisation (¹)		Unit changes from present levels of duty		
		Price change including VAT(²)	Full year yield (³) £m	Price change including VAT(²)	Actual percentage change in duty	Full year yield/cost(³) £m
<b>Indirect Taxes</b>						
Beer (pint)	18.6p	1.2p	95	1p	4.7	80
Wine (70 cl bottle of table wine)	68.6p	4.3p	30	1p	1.3	7
Spirits (bottle)	£4.73	29.9p	40	10p	1.8	15
Tobacco (20 kingsize cigarettes) (⁴)	82.7p	4.5p	140	1p	1.2	35
Petrol (gallon)	81.6p	5.2p	260	1p	1.1	55
Derv (gallon)	68.9p	4.4p	65	1p	1.3	15
VED (cars and light vans)	£100.00	£5.50	110	£1.00	1.0	20

(¹) An 'across the board' revalorisation by 5½ per cent (including the minor duties not shown above) would yield about £785m in a full year, and the impact on the RPI would be to raise it by less than ¼ per cent.

(²) VAT is payable in addition to the duty except in the case of VED.

(³) Assuming for illustrative purposes implementation on 1 April, the first and full year yield of changes in excise duties would be identical for VED; for beer and tobacco the first year yield would be approximately eleven twelfths of the full year yield; and for wine and spirits, petrol and derv, it would be approximately twenty-three twenty-fourths.

(⁴) The duty on cigarettes has *ad valorem* and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in *ad valorem* duty and VAT.

**Table 4.7 VAT**

	First year yield/cost(¹)	Full year yield/cost
1% change in rate of VAT	675	925

(¹) Assuming implementation on 1 April.



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# Autumn Statement 1985

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RETURN to an Order of the House of Commons dated 12 November 1985: for

COPY of the AUTUMN STATEMENT 1985 as laid before the House by the  
CHANCELLOR OF THE EXCHEQUER on 12 November 1985

Treasury Chambers, } NIGEL LAWSON  
12 November 1985

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*Ordered by The House of Commons to be printed  
12 November 1985*

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# Autumn Statement 1985

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SECRET

FROM: D N WALTERS  
DATE: 27 OCTOBER 1986

1. MR SCHOLAR  
2. MR ALLAN

cc Miss O'Mara  
Mr Dyer  
Miss Evans  
Mr Pickering

### AUTUMN STATEMENT

In 1983 and last year, the Autumn Statement was repeated in the House of Lords. In 1982 and 1984, the Statement was delivered on a Monday when the Lords was not sitting. Our present plans assume that this year's delivery will be on Thursday, 6 November - when the Lords will almost certainly be sitting.

2. We are working on the assumption that this year the Statement will again need to be repeated in the Lords since Parliamentary Branch advise that not to do so would cause criticism. I should be grateful if you would confirm that the Chancellor is content with this (you may wish to check with the Lord President's Office that they also consider it necessary to repeat the statement in the Lords, and ascertain from them who the spokesman would be). The Chancellor might then mention at Cabinet on Thursday 30 October that his statement would be repeated in the Lords as usual.

3. A further consequence is the need to consider when and how to bring the Lords' spokesman into the briefing arrangements. Normally, he is sent a copy of the brief in advance - at least the night before the statement. In the circumstances this year, is the Chancellor content that the spokesman should see the brief on Wednesday 5 November?



D N WALTERS



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*Rud*FROM: M C SCHOLAR  
DATE: 28 OCTOBER 1986MR ALLAN/MR KUCZYS/MRS RYDING  
MRS DUNN  
MR PICKERING  
MR ALLUM  
MR DYER  
MR PORTEOUS  
MR WOODALL  
MR RAWLINGS  
MR ROGERS  
MISS WALLACE  
MR FRAY  
MISS TITMUSS  
MR JIWANIcc Mr Turnbull (for information)  
Mr Sedgwick (for information)  
Miss O'Mara (for information)  
Mr Culpin (for information)  
Mr Gray (for information)  
Miss C Evans  
Mr Walters*1 set of docs  
for Andrew Edwards***AUTUMN STATEMENT TIMETABLE**

... I attach a revised version of the timetable and aide memoire, setting out the arrangements for an Oral Statement on 6 November and publication of the printed document on 13 November, which takes account of discussion at the Chancellor's meeting on 22 October and also of the comments on the earlier version circulated on 13 October.

2. The timetable is very tight and the countdown on 6 November itself will need an almost military discipline. Accordingly I think it would be useful if we met to go through the steps planned for the week of the Oral Statement focussing particularly on Thursday 6 November to see if there are any hidden snags or ways of saving time that we have missed. Mr Edwards is in touch with you to arrange a meeting for tomorrow or Thursday. I hope that you will agree that this will be worthwhile for all of us; and that as many as possible of you will find time to come.

*MCS*

M C SCHOLAR



DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE
OCTOBER				
23		<p>A.S. FP SEND FIRST DRAFTS OF PARTS 3+4 TO PRINTER.  A.S BRIEF: NON EXPENDITURE SECTIONS TO EB.  FP CONSIDER ARRANGEMENTS FOR THE STATEMENT IN THE LORDS.</p>		GEP 1 DRAFT PT.2. TEXT AND CLEARS WITH DIVISIONS
24		A.S. BRIEF DIVISIONS RETURN DRAFT EXPENDITURE BRIEFS TO E.B COPIED TO GEP AS APPROPRIATE.	FIRST DRAFT OF PT.1 (IAF) OF A.S. TO CHANCELLOR WITH SUBMISSION ON HANDLING OF PRESS NOTICE. EA COMMISSION CHARTS FROM CSO.	
25/26				
27	BIG BANG	<p>A.S. EA SENDS PART.1. (REVISED IN LIGHT OF CH/EX COMMENTS) TO FP. + CH/EX.  F.P. SEND PT.1. TO HMSO.  CHANCELLOR: DECISION ON NIC'S</p>	CH/EX RETURNS FIRST DRAFT OF PT.1. + RESPONDS TO SUBMISSION ON IAF HANDLING (MEETING IF NECESSARY).	GEP SUBMIT FIRST DRAFT OF BACK-UP PUBLIC EXPENDITURE TABLE TO DIVISIONS. FP+GEP CONSIDER WHAT TREASURY PRESS NOTICES REQUIRED (IF ANY). OFFICE SERVICES ADVISED OF DECISION
28		<p>A.S: GEP SENDS PT.2. TO FP+CH/EX.  FP SENDS PT.2. TO HMSO.  (P.M.): GEP SUBMISSION ON PRESENTATION OF OUTTURN.</p>	CSO SUBMIT CHARTS TO EA.	FURTHER STAR CHAMBER DISCUSSIONS.
29		SEE AIDE MEMOIRE		

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DATE	KEY EVENTS	AUTUMN STATEMENT	FORECAST	PUBLIC EXPENDITURE	
(NOVEMBER)					
6	FIRST ORDER QUESTIONS. DIVISIONS SUPPLY CONTRIBUTIONS TO F.P. FOR ECONOMIC SPEECH DEBATE.		FORECAST PUBLISHED.	FINAL SURVEY CABINET ON PUBLIC EXPENDITURE + NIC'S.	
7	PROROGATION.			GEP 1 FINALISE PUBLIC EXPENDITURE FIGURES FOR PART 2 OF A.S.	
8/9					
10	FP CONSIDER NEEDED TO SUBMIT 1 <sup>st</sup> DRAFT OF SPEECH FOR ECONOMIC DEBATE TO CH/EX.	(SEE AIDE MEMOIRE)			
11					
12	RE-OPENING OF PARLIAMENT.				WINTER SUPPLEMENTARIES SUBMITTED TO PARLIAMENT.
13	START OF QUEEN'S SPEECH DEBATES.				
14	F.P. SUBMIT DRAFT OF SPEECH FOR ECONOMIC DEBATE ANGLO-FRENCH SUMMIT.				
5/16					
17	CH/EX RETURNS SPEECH.				
18	FP RE-SUBMIT SPEECH.				
19	ECONOMIC DAY - (QUEEN'S SPEECH DEBATES).				

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## KEY TO DRAFT AIDE MEMOIRE

## (a) INDIVIDUALS

RC	Robert Culpin	IDT
BD	Brian Dyer	Parliamentary Section
NF	Nigel Fray	CH/EX's Office
MH	Meena Henson	CH/EX's Office
SW	Simon Woodall	IDT
SK	Simon Kemp	EB
AK	Tony Kuczys	CH/EX's Office
DL	Debbie Lester	CH/EX's Office
AA	Alex Allan	CH/EX's Office
MO'M	Margaret O'Mara	EB
SP	Stephen Pickford	IDT
RD	Ros Dunn	GEP
BP	Brian Porteous	EOG
RR	Rod Rawlings	EOG
DW	Doug Walters	FP
SM	Shirley Moody	CH/EX's Office
CR	Cathy Ryding	CH/EX's Office
ND	Nigel Dawson	EB

## (b) DIVISIONS ETC

CRU	Central Reproduction Unit
FP	Fiscal Policy
EA	Domestic Economy Forecasting and Analysis Division
GE	General Expenditure
IDCS	Information Division Clerical Section
CS	Committee Section
WPU	Word Processing Unit
LIB	Treasury Library



## AIDE MEMOIRE - ORAL STATEMENT 6 NOVEMBER; PRINTED STATEMENT 13 NOVEMBER

Wednesday 29 October

- (1) ST1 confirm that GAD Report will be published on 13 November (and confirm that it is acceptable that it may be a week later than the oral AS). ST
- (2) EB submit first draft of AS brief to Chancellor. MO'M
- (3) FP provide a "line to take" for Lord Privy Seal for Business Statement on 30 October. FP/BD

Thursday 30 October

- (4) Cabinet Office draft Lord President's paper for 6 November Cabinet.
- (5) EB commission briefing on the economy for 6 November Cabinet. EB
- (6) GEP commission briefing on public expenditure for 6 November Cabinet. GEP
- (7) FP circulates draft of Oral Statement for comments. FP
- (8) HMSO sends first complete proof of AS to FP, who update it as necessary and submit it to Ch/Ex. FP
- (9) FP decide which Treasury press notices (if any) to submit to Chancellor for approval. FP
- (10) First full draft of AS briefing circulated; authors to pick up copies from 99/2. SK
- (11) Divisions submit comments to GE on first draft of back up public expenditure table. GE
- (12) PM after Cabinet: FP in consultation with GE warn Departments in confidence that Chancellor may make an oral statement pm on 6th and that, consequently, press notices may be required as early as November 5th; that PFOs should tell HMT if they intend to issue one and should clear text with HMT: and warning that 100 copies will be required by Treasury the day before they are issued. GE also provide draft confidential private secretary letter confirming deadline for PNs to reach HMT and asking for a contact name. FP/CR/GE

Friday 31 October

- (13) Chancellor returns draft of part 2 to GEP by 10.00am; Chancellor returns first complete AS proof to FP by 10.00am; EA, GEP, ST and ETS amend proof copy of AS as appropriate and return to FP; FP return amended proof to HMSO. FP/EA/GEP/ST/ETS
- (14) GE draft speaking note for Cabinet for Chancellor. GE



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- (15) Chancellor and authors submit comments on first full AS brief. EB submit Central brief for first order PQs; subject briefs submitted by authors to Parliamentary. AA/EB
- (16) FP submits draft of Oral Statement to Chancellor. FP
- (17) GEP submit draft of back-up public expenditure table to Chancellor. GE

## Saturday 1 November/Sunday 2 November

- (18) GEP finalise Survey arithmetic. GEP
- (19) EB and GEP edit and revise AS brief; prepare minutes for authors. GEP/EB

## Monday 3 November

- (20) GE tell FP and EB how many Departments will issue PNs on 6th. GE
- (21) HMSO submit first book proofs to FP: authors update as necessary and return to FP who submit proof to Chancellor. FP/GE/EA/ST/ETS
- (22) EA and FP consider whether dummy forecast is necessary and when this needs to be cleared with Chancellor. Office Services informed. FP/BP/EA
- (23) Chancellor returns draft of Oral Statement; FP revise and resubmit with copy for Prime Minister if appropriate. FP
- (24) AS brief circulated; authors to collect, revise sections and resubmit by close of play. EB
- (25) Divisions return contributions for briefing for Cabinet to EB and GEP (lunchtime), who edit it and submit it to Chancellor. EB/GE
- (26) First Order Questions briefing meeting: TWB released to key persons. EB

## Tuesday 4 November

- (27) CRU photocopy TWB and Committee Section distribute to regular run. CRU/CS
- (28) Chancellor returns first book proofs (10am); book proofs returned to FP. FP returns proofs to HMSO. FP
- (29) EB revise AS brief and submit to CRU for copying (35 copies). EB
- (30) Chancellor comments on briefing for Cabinet. AA
- NB Backbenchers brief to Chancellor

## Wednesday 5 November

- (31) EA (by 10.00am) submit forecast PN (plus dummy if required) to CRU for copying (1375 copies) EA



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- (32) FP/GE submit (by 10.00am) any other HMTPNs (including ready reckoner) to CRU for copying (1375 copies). FP/GE
- (33) HMSO sends 2nd book proof of Autumn Statement to FP: FP circulates to authors for comments by Friday midday. FP
- (34) Chancellor returns oral statement to FP, FP amends and resubmits to Chancellor. FP
- (35) Proofs of Winter Supplementaries submitted to Parliament. GE
- (36) AS brief recirculated for comments (am); authors submit comments by lunchtime; final version prepared and copied by CRU (175 copies). EB/CRU
- (37) 100 copies of other Departments' press notices to Chancellor's Office. FP to chase Departments FP/NF
- (38) EB and GEP resubmit briefing for Cabinet to Chancellor. GE/EB
- (39) EB submit AS brief to Chancellor and Chief Secretary. EB
- NB. Chancellor returns backbenchers brief and Office Services check with Andrew Tyrie when it will be ready for copying and the numbers required. RR

## Thursday 6 November

### 8am

- (40) EB distribute copies of AS brief to No 10, Treasury Ministers, Lord Young (if giving statement in the Lords), PCC and a limited number of officials. EB

### am

- (41) CRU advise FP that Forecast PN and any other HMTPNs are ready. RR
- (42) Chancellor's Office make up envelopes in preparation for distribution as at Annex A. Committee Section liaise with IDT about envelope preparation for annex B. NF/SW/RR
- (43) Parliamentary to alert Speaker in confidence that there may be an OS. BD

## When Cabinet Breaks (assume for working purposes no earlier than 1.00pm)

- (44) Chancellor to debrief with Mr Unwin, Mr Scholar, Mr Allan, Mr Culpin, Mr Turnbull, Miss O'Mara and Mr Sedgwick in No 11 to confirm or otherwise go-ahead of oral statement and publication of the Forecast and a public expenditure table. AA



If oral statement is to be made with publication of Forecast and Public Expenditure table

- (45) FP, if appropriate check with Mr Sedgwick which version of the Forecast PN is to be issued and tell CRU to deliver 1375 copies of selected Forecast Press Notice and any other HMTPN (including ready reckoner) on the following distribution: Chancellor's Office (190 copies); Parliamentary Branch (750 copies); Committee Section/IDT (410 copies); and FP (25 copies).

FP/RR
  
- (46) Chancellor's Office send 30 copies to IDT of ODPNS and 5 copies to EB.

NF
  
- (47) Chancellor's Office advise Parliamentary Branch that oral statement is to be delivered. Parliamentary confirm OS to speaker.

AA/BD
  
- (48) IDT contact other departments' press offices <sup>and</sup> ~~to~~ advise of the impending oral statement and the arrangements for picking up/despatch of documents.

SW
  
- (49) Chancellor's Office to contact:

  - PS/Customs ( 2013-5001 Fed 2346 )\*
  - PS/Revenue ( 2541-6615 Fed 2577 )\*
  - Bank of England ( 601-4121 )\*
  - NEDO ( )\*
  - CBI ( 379-7400 )\*
  - TUC ( 636-4030 x 177 )\*
  - NICG ( )\*
  - Conservative Research Department ( 222-9800 x 2522 )\*

to advise of impending oral statement and to ask whether they wish to arrange for the available documents to be picked up (see annex B) for timing) or for them to be sent by post.

NF

By 2.30pm

- (50) GE provide CRU with a final version of the public expenditure table: CRU start to produce 1375 copies; Chancellor's Office collect first 65 of their total batch of 125 as soon as possible.

GE/NF/RR
  
- (51) Chancellor's Office to finalise oral statement and complete typing.

AA
  
- (52) Chancellor's Office provide CRU with final version of the oral statement: CRU start to produce 1310 copies.

AA/RR
  
- (53) EB amend AS brief in light of Cabinet decisions and 160 copies of amended pages run off and circulated by EB.

EB
  
- (54) Chancellor's Office take 65 copies of the oral statement.

NF

\* name and telephone number to be inserted by Chancellor's Office.



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## By 3.00pm

- (55) Chancellor's Office make up secret packages of 64 priority copies of ODPNs, Forecast, oral statement and public expenditure table as at Annex A. Packages are despatched as at Annex B including:
- (56) 1 copy of AS package (A) for each of following taken to PPS Chancellor's room at House by DL. (NB AA to advise on exact time for this)

NF

DL/AA

Chancellor of the Duchy of Lancaster (Mr Tebbit) )with copies  
Leader of the House of Commons: Mr Biffen )of AS  
Leader of the House of Lords: Viscount Whitelaw )brief  
Chancellor's PPS (Mr Lilley) )  
Secretary of State for Employment (Lord Young)  
Leader of the Opposition (Mr Kinnock)  
Shadow Chancellor (Mr R Hattersley)  
Leader of the Liberals (Mr Steel)  
Leader of SDP (Mr Owen)  
Leader of Official Unionists (Mr Molyneux MP)  
Sir William Clark (Chairman of Conservative Finance Committee)  
Mr Sheldon, Chairman PAC  
Mr T Higgins, Chairman TCSC  
Mr Sainsbury (Treasury Whip)  
Vice Chamberlain of the Household (Hon Robert Boscawen MP)

1 copy of AS package (A) for each of the following, collected from Chancellor's Office and taken to Lords Whip's Office by BD (timing consistent with arrangement for 15 packages for Commons above):

BD

Leader of Opposition in the Lords  
Leader of Liberals in the Lords  
Leader of SDP in the Lords  
Govt Whip in the Lords

- (57) CR to arrange for a copy of the OS to reach Official Report.
- (58) AA to brief PS/Lord Young on important changes to AS brief.
- (59) Parliamentary to arrange distribution of 23 packages received from CX office under item (55) as at Annex B.
- (60) EB ensure that all officials in Official Box have copies of amended AS brief.

CR

AA

BD

SK

## By 3.15pm

- (61) CRU provide 1375 copies of the P/E table on the following distribution:

RR

750 to Parliamentary Branch  
410 to IDT  
190 to Chancellor's Office  
25 to FP

- (62) CRU provide 710 copies of the oral statement on the following distribution:

RR

325 to Parliamentary Branch  
260 to IDT  
125 to Chancellor's Office (including those already delivered at serial (50))



At 3.15pm

- (63) Parliamentary Branch despatch 750 copies of P/E table and Forecast and 325 copies of oral statement as at Annex B (but embargoed for distribution at the House until the OS is complete). BD
- (64) IDT ready to despatch 260 copies of Forecast, P/E table and oral statement as at Annex B ie when oral statement is completed. SW
- (65) Chancellor's Office package the remainder of their copies of the P/E table, Forecast, ODPNs and oral statement as at Annex A and despatch as at Annex B ie officials and other Cabinet Ministers as soon as possible and remainder after Chancellor finishes speaking and by hand as appropriate. NF

By 4.00pm

- (66) CRU provide 475 copies of the oral statement on the following distribution: RR
  - 425 to Parliamentary Branch
  - 50 to IDT

They despatch as shown at Annex B. SW/BD

By 4.30pm

- (67) CRU provide 100 copies of the oral statement to IDT who despatch as shown at Annex B and 25 copies to FP. RR/SW

After oral statement

- (68) Chancellor's office to note changes in delivered OS from typed version and inform IDT if significant. CR
- (69) EB distribute AS brief to remaining recipients. SK

Friday 7 November

- (70) Authors return comments (by midday) on 2nd proof of AS to FP: FP return 2nd proof of AS to printers and consider whether to submit copy to Chancellor. FP/AA
- (71) EB circulate AS brief to authors for amendment if necessary. EB

Monday 10 November

- (72) HMSO (am) returns proofs to FP. FP
- (73) If appropriate (see (70)) Chancellor comments on 2nd proof of AS. AA
- (74) GE to advise FP and Chancellor's Office of any ODPNs for issue on 13th. GE

Tuesday 11 November

- (75) (am) Proof of AS returned to printers. FP



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(76) Deadline for comments on revised AS brief.

EB

## Wednesday 12 November

(77) (am): Read at press.

FP

(pm): Printer sends advance copies for FP/CHX/CST.

FP

[(78) Parliamentary table "Notice of Motion for an Unopposed Return" for printing and arrange for a Whip to nod motion through at commencement of business on 13 November.

BD]

(79) 100 copies of ODPNs and GAD Report sent to Chancellor's Office. FP to chase Departments for ODPNs.

FP/NF

(80) GEP send copies of any HMTPNs to CRU for reproduction (1610 copies).

GE

(81) EB submit revised brief to CRU for 175 copies. EB then circulate.

EB

## Thursday 13 November

### am

(82) HMSO deliver (am) 440 copies of printed Autumn Statement as follows:

FP

120 to Library  
170 to Chancellor's Office  
125 to Committee Section  
15 to Parliamentary Branch  
10 to FP

(83) These plus any HMTPNs plus ODPNs and the GAD report are packaged during the morning as at Annex A and Annex C and released at [3.30] pm.

(84) 2 copies of AS formally laid on the Table of each House.

BD

(85) Library to distribute printed AS to those Under Secretaries not listed in Annex A.

LIB



Distribution list serviced by Chancellor's Office requiring

NB (Priority Copies\*)

a) Oral Statement, Forecast and Public Expenditure table plus other HMTPN and ODPN

Prime Minister*	The Speaker*
Chancellor*	Chancellor of the Duchy of Lancaster*
Chief Secretary*	Secretary of State for Employment*
Financial Secretary*	Leader of the House of Commons*
Economic Secretary*	Leader of the Lords*
Minister of State*	Leader of the Opposition*
Sir Peter Middleton	Mr Steel*
Sir Terence Burns	Mr Owen*
Sir Geoffrey Littler	Mr Molyneux*
Mr F E R Butler	Shadow Chancellor*
Mr Wilson	Chancellor's PPS*
Mr Anson	Sir William Clark (Chairman of Conservative Finance Committee)*
Mr Cassell	Mr Sheldon (Chairman PAC)*
Mr Kemp	Mr Higgins (Chairman TCSC)*
Mr Monck	Mr Sainsbury (Treasury Whip)*
Mr Lavelle	Mr McKay (Clerk (TCSC))
Mr Byatt	Vice Chairman of the Household (Hon Robert Boscawen MP)*
Mr Scholar	Leader of the Opposition (Lords)*
Mr Moore	Leader of the Liberals (Lords)*
Mr Sedgwick	Leader of the SDP (Lords)*
Mr Peretz	Government Chief Whip (Lords)*
Mrs Lomax	
Mr Odling-Smee	Total - 60 copies
Mr Turnbull	

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b) Oral Statement, P/E table, Forecast and other HMTPNs

Mr Culpin	Sir A Fraser (C&E)*
Miss O'Mara (3 copies)	Mr Battishill (IR)*
Mr P Gray	Customs (2 copies)*
Mr Pratt	Revenue (2 copies)*
Miss Evans	Bank of England (6 copies)*
Mr Walters	NEDO (3 copies)
Mr Cropper	CBI (3 copies)
Mr Ross Goobey	TUC (3 copies)
Mr Tyrrie	NICG (3 copies)
Mr Allan*	Conservative Research Department (3 copies)
Mr Kuczys*	Diplomatic Missions (16 copies)
Miss Ryding*	British Embassy Washington (3 copies)
	UKREP Brussels (4 copies)
	BIS New York
	British Embassy, Paris
	Principal Finance Officers (25 copies)
	Other Cabinet Ministers (25 copies)

Total - 102 copies



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ANNEX B

## Sources and distribution of AS material on 6 November

### Sources

CRU	1310 copies of Oral Statement	125 to Chancellor's Office 410 to IDT 750 to Parliamentary Branch 25 to FP
CRU	1375 copies of P/E table	190 to Chancellor's Office 410 to IDT 750 to Parliamentary Branch 25 to FP
CRU	1375 copies of Forecast PN other HMTPN	190 to Chancellor's Office and any 410 to IDT 750 to Parliamentary Branch 25 to FP
OGDs	100 copies of OGDPNs	to Chancellor's Office

### Distribution by Chancellor's Office

	OS/PE table & forecast	ODPNS	Time of distribution
<b>Priority Copies</b>			<b>NB Not before Chancellor advises OS is on</b>
EB	-	5	As soon as possible
Parly Branch (for Speaker)	1	1	As soon as possible. (Most urgent ie by 2.30 at latest)
PM/HMT Mins	6	6	As soon as possible
IDT	-	30	As soon as possible
Parly Branch	23	-	As soon as possible. (Most urgent ie by 2.30 at latest)
Customs/Revenue/Bank	12	-	As soon as possible
Ch Pte Office	3	3	As soon as possible
Commons/Lords	19	19	By 3.00 (see serial (56))
<b>Sub total</b>	<u>64</u>	<u>64</u>	
Officials	30	30	As soon as possible
Other Cabinet Ministers	25	-	As soon as possible
TCSC Clerk	1	1	After OS is complete
NEDO/CBI/TUC/NICG/CRD	15	-	After OS is complete
Embassies etc	16	-	After OS is complete
US/Brussels	8	-	After OS is complete
Paris	1	-	After OS is complete
PFOs	25	-	After OS is complete
<b>Total</b>	185	95	



**Distribution by Parliamentary Branch**

	OS/PE table & forecast	ODPNs	Time of distribution
Received from			
Chancellor's Office	24	1	
CRU	750	-	
<b>Total</b>	<b>774</b>	<b>1</b>	
Despatched to			
Vote Office/PPO	750	-	As they become available but embargoed to end of oral statement
Speaker	1	1	As soon as possible. (V. urgent) ) <u>Must be</u>
Govt Whips (Commons)	5	-	As soon as possible. (V. urgent) ) <u>delivered at</u>
Govt Whips (Lords)	8	-	As soon as possible. (V. urgent) ) <u>latest by 2.50pm</u>
House Libraries	8	-	After OS is complete
<b>Total</b>	<b>772</b>	<b>1</b>	

**Distribution by IDT**

Received from		
CRU	410	-
Chancellor's Office	-	30

**Despatched when oral statement is completed**

Press Gallery)	100	-	For receipt time with IDT of OS for each group see item (62)
Lobby )			
Press	76	-	see item (62)
Non-press	50	-	see item (66)
Departmental Press Offices	25	-	see item (62)
Treasury mailing list	100	-	see item (67)
IDT & spares	29	30	see item (62)
FFJG	30	-	see item (62)
<b>Total</b>	<b>410</b>	<b>30</b>	



Sources and distribution of AS material on 13 November

Sources

HMSO	440 copies of AS	120 to Library 170 to Chancellor's Office 125 to Committee Section 15 to Parliamentary Branch 10 to FP
CRU	1610 copies of HMTPN	170 to Chancellor's Office 275 to Committee Section/IDT 1160 to Parliamentary Branch 5 to EB
OGDs	100 copies of OGDPNs	to Chancellor's Office
GAD	80 copies	to Chancellor's Office

Distribution by Chancellor's Office

	AS	HMTPN	GAD Report	ODPN
Received from				
HMSO	170			
CRU		170		
DHSS			85	
OGD				100
<b>Total</b>	<b>170</b>	<b>170</b>	<b>85</b>	<b>100</b>

Despatched to

EB			5	5
IDT			15	20
PM + HMT Mins	6	6	6	6
Parly Branch	1	1	1	1
Customs/Revenue/Bank	12	12		
Ch Pte Office	3	3	3	3
Commons/Lords	19	19	19	19
Hansard				
NEDO/CBI/TUC/NICG/CRD	15	15		
Embassies etc	16	16		
TCSC	1	1	1	1
US/Brussels	8	8		
Paris	1	1		
PFOs	25	25		
Other Cabinet Ministers	25	25		
Others	30	30	30	30
<b>Total</b>	<b>162</b>	<b>162</b>	<b>80</b>	<b>85</b>



**Distribution by Parliamentary Branch**

	AS	HMTPN	GAD Report	OGDPN
Received from				
HMSO	15			
CRU		1160		
Chancellor's Office	1	1	1	1
<b>Total</b>	<b>16</b>	<b>1161</b>	<b>1</b>	<b>1</b>

**Despatched to**

Vote Office/PPO		1150		
Speaker	1	1	1	1
House Libraries	8	8		
Formal presentation to Commons/Lords	4			
<b>Total</b>	<b>13</b>	<b>1159</b>	<b>1</b>	<b>1</b>

**Distribution by IDT**

Received from				
Committee Section	125	275		
Chancellor's Office			15	20

**Despatched to**

(Press Gallery	20	20		
(Lobby				
(Press	76	76		
(Non-Press	-	50		
Treasury Mailing List - IDT + Spares	100 29	29	15	20
<b>Total</b>	<b>125</b>	<b>275</b>	<b>15</b>	<b>20</b>



CONFIDENTIAL

PHW

Ch  
 These are Peter's  
 thoughts (long gestation  
 produces small child)

CHANCELLOR

AA

From: SIR PETER MIDDLETON

Date: 28 October 1986

cc Chief Secretary  
 Sir T Burns  
 Mr F E R Butler  
 Mr Scholar  
 Mr Culpin

THE AUTUMN STATEMENT

A few thoughts on fiscal policy for the Autumn Statement.

2. The reaction will be conditioned somewhat by the FT piece on Monday which I see has been followed up in the Daily Telegraph today. You will no doubt be challenged by Mr Hattersley on the fiscal prospect as you were last time. So you will wish to preempt this in the oral statement.

3. Another common misconception is that the absence of comment about monetary policy means that it has been ditched altogether. The reaction to the Governor's Loughborough speech will increase the propensity for this sort of comment.

4. I wonder if we could kill a number of birds with one paragraph along the lines of the attached. It is designed to come after a bullish approach to public expenditure but before the section on the economy.



P E MIDDLETON



The public expenditure plans which I have outlined today will be taken into account when I come to set the PSBR at Budget time. Other things being equal they will reduce the scope for reductions in taxation. However, as I reminded the House last year, the Autumn Statement is but a small part of Government policy. It is primarily an outline of the Government's public expenditure decisions coupled with an interim account of developments in the economy. This is not the time to speculate about the Government's fiscal and monetary policy for future years. That will be dealt with, as is normal, at Budget time in the context of the medium term financial strategy, and in the light of further information about the economic prospect.

Meanwhile, as the Industry Act forecast shows, the medium term strategy continues to produce low inflation and steady growth.



plp



10 DOWNING STREET

CH/EXCHEQUE	
REC.	28 OCT 1986
ACTION	Mr F. Butler
COPIES TO	PS / CST
	27 October 1986
	Sir P. Middleham
	Mr Turnbull
	Mr P. Gray

✓  
27  
/10

From the Principal Private Secretary

Dear Alex,

Mr Scholar  
Mr Culpin

PRESENTATION OF THE AUTUMN STATEMENT AND THE QUEEN'S SPEECH

I mentioned to you on the telephone earlier today the discussion in the Strategy Group this morning about the need to maximise the presentational impact of departmental aspects of the Autumn Statement and The Queen's Speech. I now attach a draft letter which I would like to send to Private Secretaries of Ministers in charge of Departments commissioning material. The draft is very much a cockshy at this stage, and I think you will probably wish to amend it so far as the material required by the Treasury is concerned.

In any event, my letter needs to be despatched very soon and I should be grateful therefore if you could let me have comments on its draft by 1800 hours, Tuesday 28 October.

*Yours sincerely*  
Nigel Wicks

(N.L. WICKS)

Ch

I think it will be v diff to send this round before Thursday (when you tell Cabinet about personnel plans for AS). Robin Butler & Michael Scholar will be submitting advice later in the afternoon.

*W.L. De PM  
are for that @  
Cabinet, & perhaps  
w/ your w/ Wicks,  
advise for the dark.  
Autumn before.*

Alex Allan, Esq.,  
HM Treasury.

AA



CONFIDENTIAL

DRAFT LETTER TO PRIVATE SECRETARIES OF MINISTERS IN CHARGE  
OF DEPARTMENTS

PRESENTATION OF THE AUTUMN STATEMENT AND THE QUEEN'S SPEECH

The Prime Minister wishes to maximise the presentational impact of the Autumn Statement and The Queen's Speech. She wishes the presentation to focus particularly on the Government's future initiatives and plans so as to make clear the Government's continuing programme of reform and innovation. She would therefore like special care to be taken with the presentation of the packages of material which are issued to journalists in connection with the Autumn Statement and The Queen's Speech so that they present the Government's programme to its best advantage.

With this in mind, the Prime Minister wishes to have prepared for both The Queen's Speech and the Autumn Statement a tight summary, covering at the most three pages of double spaced text, of the most important and presentationally attractive elements of each Department's public spending programmes and legislation and other initiatives which their Minister will be putting forward in the forthcoming session.

The Treasury should take the lead in the preparation of the material to cover the Autumn Statement. The No.10 Press Office already co-ordinates the compilation of briefing material on The Queen's Speech, and will be responsible for the preparation of the summary in this case.

Accordingly I ask that you, and those to whom this letter is copied, should send two or three paragraphs of appropriate material to .... (HM Treasury), in the case of

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- 2 -

the Autumn Statement, and to Bernard Ingham, Chief Press Secretary No.10, in the case of The Queen's Speech.

In both cases the material should be sent by noon on Friday 31 October.

DCABMV

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~~DRAFT~~

Write to: N. L. Wicks, Esq., CBE,  
No. 10 Downing Street,  
LONDON, SW1

## PRESENTATION OF THE AUTUMN STATEMENT AND THE QUEEN'S SPEECH

Thank you for your letter of 27th October.

2. *As you know,* ~~The Chancellor warmly welcomes the suggestion~~ *fully agrees* that the Prime Minister should urge colleagues to take special care about the presentation of material on the Autumn Statement and the Queen's Speech.

3. On the Autumn Statement, the Chancellor has it in mind to suggest to the Prime Minister that the Cabinet should be told at their meeting this Thursday that the public expenditure discussion will take place next Thursday, ~~4th~~ *6th* November, and that, ~~if~~ *assuming* the discussion reaches a conclusion, the Chancellor ~~may~~ *will* make a statement that afternoon in view of the imminence of Prorogation. The Treasury proposes to follow that up by a letter commissioning departments to prepare, and clear with the Treasury, press notices on the main features of their spending plans. The highlights of each department's spending proposals will also be summarised in the oral statement and further material will subsequently be published in the printed Autumn Statement. All this will be covered in the Treasury letter to be circulated on Thursday afternoon.

4. We think that there would be some risk of confusion among departments if a separate letter commissioning material on the Autumn Statement were to be circulated by No.10.



We would therefore suggest that two complementary letters should be circulated, one from you commissioning material on the Queen's Speech and one from the Treasury on the Autumn Statement. I attach a revised draft of your letter on this basis.

5. We would also suggest that your letter should be issued simultaneously with the Treasury's letter, ie on Thursday afternoon. If it goes out before, there is a risk that it would stimulate premature speculation and enquiries about the date of the Autumn Statement.

A. C. S. ALLAN



## CONFIDENTIAL

FROM: F. E. R. BUTLER  
28th October, 1986.

PRINCIPAL PRIVATE SECRETARY

c.c. Chief Secretary  
Sir Peter Middleton  
Mr. Scholar  
Mr. Turnbull  
Mr. Culpin  
Mr. Gray

PRESENTATION OF THE AUTUMN STATEMENT AND THE QUEEN'S SPEECH

The proposal in Mr. Wicks' letter of 27th October raises questions both of substance and of timing.

2. On the substance, we propose to write to departments on Thursday afternoon, after their Ministers have been told at Cabinet that morning about the timing of the Cabinet discussion on public expenditure and the possibility of a statement on the same day in view of the imminence of Prorogation. The letter will commission departments to prepare press notices on their expenditure plans. The oral statement will also contain summaries of the most important aspects of the programmes announced for the major departments; and further material will be published in the printed Autumn Statement a week later.

3. While we welcome No.10's support for urging departments to pay attention to the preparation of this material, we think that there will be a risk of confusion if departments get separate instructions from No.10 on the Autumn Statement. We would therefore prefer that the material commissioned in Mr. Wicks' letter is confined to the Queen's Speech, which No.10 will be responsible for co-ordinating.

4. On timing, there is a risk that, if Mr. Wicks' letter is sent out before Thursday, it will stimulate premature speculation and enquiries about the timing of the Autumn



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Statement. We would therefore prefer that it should be issued on Thursday afternoon, simultaneously with the letter from the Treasury. There is, of course, less urgency about commissioning material on the Queen's Speech.

5. I therefore suggest that you reply to Mr. Wicks in the attached terms, sending a revised draft of his letter.

F.E.R.B.

F. E. R. BUTLER



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Sir P Middleton  
 Mr F E R Butler  
 Mr Scholar  
 Mr Turnbull  
 Mr Culpin  
 Mr Gray

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

28 October 1986

N L Wicks Esq CBE  
 No 10 Downing Street  
 LONDON SW1

Dear Nigel,

**PRESENTATION OF THE AUTUMN STATEMENT AND THE QUEEN'S SPEECH**

Thank you for your letter of 27 October.

As you know, the Chancellor fully agrees that the Prime Minister should urge colleagues to take special care about the presentation of material on the Autumn Statement and the Queen's Speech.

On the Autumn Statement, the Chancellor has it in mind to suggest to the Prime Minister that the Cabinet should be told at their meeting this Thursday that the public expenditure discussion will take place next Thursday, 6 November, and that, assuming the discussion reaches a conclusion, the Chancellor will make a statement that afternoon in view of the imminence of Prorogation. The Treasury proposes to follow that up by a letter commissioning departments to prepare, and clear with the Treasury, press notices on the main features of their spending plans. The highlights of each department's spending proposals will also be summarised in the oral statement and further material will subsequently be published in the printed Autumn Statement. All this will be covered in the Treasury letter to be circulated on Thursday afternoon.

We think that there would be some risk of confusion among departments if a separate letter commissioning material on the Autumn Statement were to be circulated by No.10. We would therefore suggest that two complementary letters should be circulated, one from you commissioning material on the Queen's Speech and one from the Treasury on the Autumn Statement. I ... attach a revised draft of your letter on this basis.

We would also suggest that your letter should be issued simultaneously with the Treasury's letter, ie on Thursday afternoon. If it goes out before, there is a risk that it would stimulate premature speculation and enquiries about the date of the Autumn Statement.

Yours  
 A C S

A C S ALLAN



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DRAFT LETTER TO PRIVATE SECRETARIES OF MINISTERS IN CHARGE  
OF DEPARTMENTS

The Prime Minister wishes to maximise the presentational impact of the Autumn Statement and The Queen's Speech. She wishes the presentation to focus particularly on the Government's future initiatives and plans so as to make clear the Government's continuing programme of reform and innovation. She would therefore like special care to be taken with the presentation of the packages of material which are issued to journalists in connection with the Autumn Statement and the Queen's Speech so that they present the Government's programme to its best advantage.

The Treasury will shortly be in touch with Departments about the arrangements for the preparation and issue of Press Notices on their new spending plans as part of the Autumn Statement.

The Prime Minister wishes to have prepared for The Queen's Speech a tight summary, covering at the most three pages of double spaced text, of the most important and presentationally attractive elements of Departments' legislation and other initiatives which their Minister will be putting forward in the forthcoming session.

The No.10 Press Office already co-ordinates the compilation of briefing material on The Queen's Speech, and will be responsible for the preparation of the summary in this case. Accordingly I ask that you, and those to whom this letter is copied, should send to Bernard Ingham, Chief Press Secretary No.10, two or three paragraphs of appropriate material on their sections of The Queen's Speech. This material should be sent to No.10 by noon on [Thursday 6th November.]