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PART B

TREASURY AND CIVIL
SERVICE COMMITTEE (TCSC)
ENQUIRY ON THE 1985
AUTUMN STATEMENT AND
OTHER HEARINGS

Begins: 12/11/85

Ends: 20/12/85 (CONTINUED)

DD: 25 years

5/9/95

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A KEY POINTS AND SUMMARY

[See also Recent developments in UK economy (Brief B1), Industry Act forecast (B3), Autumn Statement contents and changes (C1), Forecast fiscal adjustment (C2), Fiscal policy (D1), Public expenditure in 1985-86 (G1), Public expenditure 1986-87 to 1988-89 (G2)]

Factual

(i) Public expenditure

(a) **Planning total**

- held to Budget levels of £139.1 billion in 1986-87 and £143.9 billion in 1987-88.
- £148.7 billion in 1988-89.

(b) **Plans show**

- public expenditure remaining broadly stable in real terms;
- still broadly flat in real terms when asset sales excluded;
- declining as proportion of GDP. By 1988-89 will be lowest percentage (41) of GDP since 1972-73 (see G2).

(c) **Estimated outturn** for 1985-86 £134.2 billion, as in FSBR (see G1).

(ii) Forecast

RPI inflation reaches 3¾ per cent by 1986Q4.

Economy forecast to **grow** at 3½ per cent in 1985; 3 per cent in 1986.

Current account surplus of £3 billion in 1985; £4 billion 1986

No **unemployment** forecast given but trend should continue to be more favourable than over last two years. (See B3)

PSBR for 1985-86 now forecast as £8 billion, instead of £7 billion as in FSBR - because oil revenues likely to be lower than forecast earlier (see B3). Smallest PSBR as percentage of GDP for 14 years.

1986 first year since 1968 when **inflation and growth** within one percentage point of each other.

(iii) National insurance

- Class I contribution rates for 1986-87 unchanged
- Lower Earnings Limit uprated by 7 per cent to £38 per week in line with single retirement pension
- Upper Earnings Limit uprated correspondingly to £285 per week

- Limits for reduced rate bands for both employers' and employees' contributions for lower paid uprated similarly to £60/£95/£140 (see E1).

Positive

(i) **Strategy on course.**

- Firm control of public expenditure maintained. Plans show flat path in real terms, falling as percentage of GDP.
- Inflation coming down sharply to 1960s levels. Growth in 1985 faster than EC and US. Continuing into sixth year at healthy 3 per cent. 1986 will be seventh year of current account surplus. Unemployment beginning to respond.

(ii) **NIC earnings limits** on reduced rate bands fully indexed to maintain value.

(iii) Improvements to published **Autumn Statement** (see C1)

- 3 years' expenditure figures
- departmental breakdown of forecast outturn
- colour

Defensive

(i) No review of MTFS. Not purpose of Autumn Statement. Would be wrong to update medium term strategy more than once a year. Mid-year review of MTFS unnecessary, as no decisions taken before full review in run up to Budget.

(ii) No fiscal adjustment forecast. Far too much significance given in past years to conventional arithmetical calculation based on early and unreliable revenue forecasts on which no operational decisions were based. Speculation unsettled markets. (See C2)

(iii) Autumn Statement shows fiscal policy loosening. Fiscal policy tight. Forecast shows 1985-86 PSBR $2\frac{1}{4}$ per cent of GDP. Even excluding privatisation proceeds, not quite 3 per cent. No decision yet taken about stance of policy in 1986-87. Wait for Budget. (See also D1)

still lowest since 1971-72 (2.9

(iv) General case for tax cuts: Autumn Statement deliberately contains no forecast fiscal adjustment which in past has led to unwarrantedly damaging speculation (see (ii) above). For level of taxes in 1986-87 must await 1986 Budget. But over period of years, Government certainly committed to achieve reductions in personal tax burden. Individual, not State, best placed to decide how his own money should be spent. Government should not seek to pre-empt that responsibility by taking ever-increasing proportion of income in form of tax. Cuts in taxes stimulate enterprise and efficiency and so lay foundation for steady growth and jobs that last.

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(v) Lower taxes vs higher spending: In very short run, higher spending may have greater effect on demand than lower taxes. In longer term, gains will certainly be eroded by relatively higher inflation and interest rates. But UK not suffering any lack of demand. So look to effect on supply performance, where reduction and reform of tax and NICs help stimulate enterprise and initiative. Examples of UK and Japan demonstrate that low tax economy works better and generates more growth and jobs than high tax economy. (See also B6, G5)

(vi) Ignored criticisms of Treasury and Civil Service Select Committee (TCSC) on treatment of privatisation proceeds etc. Have given 3 years' expenditure figures and departmental breakdown of forecast outturn - both in response to TCSC request. Do not accept criticism on treatment of privatisation proceeds but have shown effects of excluding them from figures (AS Table 2.4). In general, have shown are prepared to accede to requests where justified (see C1).

(vii) PSBR overrun 1985-86 because of lower oil revenues; implies PSBR overshoot 1986-87. Many factors subject to change. Will review MTFS (including PSBR) before next Budget.

(viii) Public expenditure totals held only because of reduced Reserve. Entirely appropriate to reduce Reserve as uncertainties reduce. Experience of 1985-86 suggests £4½ billion sufficient for 1986-87 (when coal strike costs no longer substantial).

(ix) Public expenditure totals held only because of expanded privatisation programme. Even when privatisation receipts excluded, public expenditure flat in real terms and falls as percentage of GDP. Programme major plank in Government's policy, pursued consistently since 1979, of rolling back boundaries of public sector and promoting wider participation in ownership of British industry. Now gathering momentum and will run well beyond this Parliament. Will generate long term economic benefits as well as benefits from wider share ownership. Programme manifestly popular and successful. UK treatment of privatisation proceeds in national accounts in line with international conventions. (See G2)

(x) Increased expenditure financed by higher privatisation proceeds means looser fiscal policy. No decision yet taken about stance of policy in 1986-87. MTFS reviewed before next Budget, taking account of all relevant factors, including composition of public expenditure. (See D1)

(xi) Privatisation proceeds increased to finance tax cuts. Higher figures reflect increasing momentum of privatisation programme. For decisions about future level of taxes, wait for Budget. (See D1.)

(xii) Higher prospective privatisation proceeds mean PSBR targets should be reduced. Autumn Statement gives no forecast of, still less any advance indication of judgement which will be made of, PSBR for 1986-87. Will be set at time of 1986 Budget. Scale of privatisation proceeds one factor (among many) to be taken into account when deciding appropriate level of PSBR. Wait for Budget. (See also D1 and G3)

(xiii) Growth faltering? Forecast shows growth of 3½ per cent in 1985 and 3 per cent in 1986 - into sixth year of upswing, longest since War. (See B3)

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(xiv) Exports falling away - House of Lords Select Committee right? Exports of goods and services forecast to rise by 7 per cent in 1985 (volume terms) and further 2 per cent in 1986. No cause for alarm. Certainly no case for more help for manufacturers. Need right climate for all enterprise. Forecast falls in inflation will help provide it. (See B3)

(xv) Manufacturing deficit worsening. 1985 deficit much same as 1984. Longstanding rising trend in import penetration is same in most developed countries. But price and cost competitiveness vulnerable to excessive increases in pay settlements and unit labour costs (see B1)

(xvi) No hope for unemployed. Employment rising - faster than in rest of EC - and will continue. Government's supply side measures to increase labour market flexibility will remove obstacles to new jobs. With healthy growth forecast for 1986, employment measures making increasing impact and growth of labour force slowing, prospects for unemployment will continue to be more favourable than for last two years, as latest figures show. But realism in pay settlements crucial. (See B3, B6)

(xvii) Industry needs cut in interest rates. Industry primarily needs fall in inflation. Will not jeopardise central inflation objective by premature cut in interest rates. Industry could cut its own costs more by moderate pay settlements. (See D2)

(xviii) Should cut employers' costs by cutting NICs. Major restructuring only just taken by effect. Value of reduced rate bands fully maintained by indexation. Cut in rates would put Fund into deficit. Employers hold key to lower costs through moderation on pay. (See E1)

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B1 RECENT DEVELOPMENTS IN UK ECONOMY

[See also World developments (Brief B2), Industry Act forecast (B3), Employment and unemployment (B5), Monetary and exchange rate developments and policy (D5)]

Factual

(i) **Prices and earnings**

(a) **UK: Year on year percentage changes**

	1984	1985 Q1	1985 Q2	1985 Q3	Latest month	
RPI	5	5½	7	6½	5.9	September
Producer output prices in manufacturing (excluding food, drink and tobacco)	5½	6½	6½	6½	6.1	October
Producer input prices in manufacturing (excluding food, drink and tobacco)	8¾	14¾	6¾	1¼	-3.8	October
Underlying whole economy average earnings	7½	7½	7½		7½	August
Unit wage costs in manufacturing*	3½	5½	6½		7½	August

* These differ slightly from unit labour costs quoted in (c) below for which no recent nationally produced figures exist.

(b) Inflation has come down. Retail price inflation touched 7 per cent in May and June but fell to 5.9 per cent in year to September. Remains above average of 6 major OECD economies (3.7 per cent) and EC average (5.4 per cent).

(c) Underlying earnings rose by 7½ per cent in year to September. Actual earnings rose 9 per cent, mainly because coal strike temporarily reduced average earnings in August 1984. Increases in manufacturing unit labour costs are well above recent increases of our major competitors. (1984Q2-1985Q2: UK +6½ per cent, US +1¼ per cent, France +½ per cent, W Germany -½ per cent, Japan -¾ per cent.)

(ii) GDP rose by 4 per cent between 1984 H1 and 1985 H1 - equivalent to about 3½ per cent in strike-adjusted terms.

(iii) Now into fifth year of uninterrupted growth at average rate so far of 3 per cent a year.

(iv) Current upswing has so far lasted 4 years (1981H1 - 1985H1). Longer than last recovery (1975H2 - 1979H1) and longest since 1945.

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(v) **Recoveries compared (Average annual percentage growth)**

	Consumers' Expenditure	General Government Consumption	Fixed Investment	Exports	Imports	GDP(E)	GDP(A)
1975H2 - 1979 H1	3	1	1¼	5¼	4¾	2½	3
1981H1 - 1985H1	2	1	6	5	7¾	2¼	3

(vi) North Sea oil contributed 1 per cent to annual growth of GDP during 1975-79 recovery under Labour but only ½ per cent during current upswing 1981 H1 - 1985 H1.

(vii) Total fixed investment rose by 8 per cent in real terms in 1984 to reach all time high - equivalent to £55 billion in money terms - and set to beat that in 1985. Business investment rose by 15½ per cent in real terms in 1984 to reach all time high. Manufacturing investment rose by 14½ per cent. DTI Intentions Survey suggested further real increases in 1985 of 8 per cent in business investment and 10 per cent for manufacturing. October CBI Trends Survey suggested 11 per cent increase in manufacturing investment in 1985 and 8 per cent in year to 1986 H1.

(viii) Consumers' expenditure - preliminary estimate - rose by ½ per cent in 1985 Q3 and was 3 per cent higher than level in 1984 Q3. Retail sales in 3 months to October were 4 per cent above same period a year earlier.

(ix) Real take home pay (percentage changes)

	1973-74 to 1978-79	1978-79 to 1985-86*
Married man (average earnings)	+ ½	+13
Married man (half average earnings)	+4	+11½

* Based on Inland Revenue estimates for 1985-86.

(x) Balance of payments: 1985 expected to be sixth successive year of current account surplus. First nine months of 1985 saw surplus of £1.4 billion. Though export volumes (excluding oil and erratics) estimated to have fallen in recent months, still up 7½ per cent on Q3 a year ago. Import volumes up 2 per cent in same terms.

(xi) Industrial production in 3 months to August fell by ½ per cent but 4½ per cent up on level a year earlier (1½ per cent after adjusting for coal strike). While 2 per cent below 1979Q2 level, up 12½ per cent on 1981Q1 trough. Manufacturing output up 2 per cent on a year earlier but (according to currently available estimate which may be revised upwards) has shown no growth since 1985Q1. However, CBI October Trends Survey suggests healthy growth of manufacturing output in months ahead.

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(xii) Construction output in 1985 Q2 up 15 per cent on its trough in 1981Q4 but 7 per cent below 1979 Q2 level. In 1985Q2 2 per cent higher than year earlier. Investment in private dwellings in 1984 at all time high. Private house completions in 1984 highest since 1973. Private housing starts running more than 5 per cent above last year's average in last two quarters.

(xiii) Industrial and commercial company profits (excluding oil) rose by about a quarter between 1984H1 and 1985H1, allowing for BT profits.

(xiv) Profitability of all industrial and commercial companies 11½ per cent in 1984. Manufacturing profitability 6½ per cent.

(xv) Over five years 1980-1984 net surplus of 140,000 businesses registering for VAT, equivalent to nearly 550 a week - 700 a week in 1984. In first eight months of 1985, new company registrations up 8 per cent on same period of 1984 and 1985 all set to beat 1984's record level of nearly 100,000.

(xvi) Employment rising: 677,000 new jobs (net) since spring 1983 - around 600,000 more in work.

(xvii) Unemployment flat in 6 months to October - contrasts with average monthly increase of 10-15,000 over last two years. Unfilled vacancies in October highest since March 1980.

(xviii) Manufacturing productivity rose 3½ per cent 1984H1 to 1985H1. Lower than growth averaging 6 per cent over last five years, but well up on 1 per cent average annual increase 1974-1979.

(xix) CSO leading cyclical indicators currently giving no sign of when next turning point in economic activity will occur.

Positive

(i) Producer input prices for manufacturing (excluding food, drink and tobacco) fell by 3¾ per cent in year to October. Import prices have fallen in five out of last six months and now 9½ per cent below March peak. CBI October Trends Survey showed the smallest balance of firms expecting to increase prices since 1968.

(ii) GDP growth of 4 per cent between 1984H1 and 1985H1 was largest annual increase since 1973.

(iii) Period of growth since 1981H1 is longest since 1973 oil price increase and 3 per cent average growth as large as any over four years since 1973. Recent evidence suggests that growth over latest period could be revised up slightly.

(iv) UK growth topped EC league in 1983 and, despite coal strike, grew at EC average in 1984. For 1985 both OECD and European Commission expect UK to be fastest growing economy in EC and to grow faster than US. Contrast with 1970s when UK bottom of Community growth league.

(v) Upswing longest since 1945 and broadly based. Growth in fixed investment has averaged 6 per cent a year during current upswing 1981H1-1985H1, compared with only 1¼ per cent in 1975-1979 recovery.

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(vi) Since 1981 trough of recession, investment has risen over twice as fast as consumption. Reverse of position in recovery 1975-79. North Sea oil has contributed only ½ per cent a year to growth in current upswing, compared with 1 per cent during 1975-79 recovery.

(vii) Between 1974 and 1979 money GDP rose by around 18 per cent a year, of which 16 per cent was frittered away in higher inflation and real growth was only 2 per cent. During present upswing since 1981H1, real growth has averaged 3 per cent a year with inflation averaging under 6 per cent.

(viii) Volume of fixed investment has grown by 9 per cent since 1979H1. Up only 3 per cent in Labour's term (1974H1-1979H1).

(ix) Signs that unemployment stabilising. Trend is now flat. Male unemployment has fallen by an average 3,000 a month since April.

(x) Manufacturing profitability in 1984 highest since 1973. Profits of all industrial and commercial companies highest for two decades and have averaged 8 per cent since 1979 - above 6 per cent average of Labour's term 1974-1979.

(xi) Real take home pay of married man on average earnings up 13 per cent since 1978-79. Up only ½ per cent under Labour.

Defensive

(i) GDP growth since 1979 simply reflects higher oil output. Oil has contributed only ½ per cent a year (out of 3 per cent annual growth) in current recovery compared with 1 per cent a year during 1975-79 recovery under Labour.

(ii) Manufacturing output and investment have declined. (Manufacturing output currently 9 per cent below 1979Q2 level and manufacturing investment 14 per cent below 1979Q2 level.) Manufacturing now represents around 25 per cent of total output and like most other industrial countries its share in GDP has fallen over last two decades. But performed strongly since trough of recession (see (iii) below).

(iii) Concern of House of Lords Select Committee on Overseas Trade about future of manufacturing in UK. Report ignores strong performance of manufacturing since trough of recession (output +11 per cent, investment +32 per cent, productivity +31 per cent, exports have reached record levels). Controlling unit costs in manufacturing, especially pay, key to success.

(iv) Industrial production 2 per cent below 1979Q2 level, despite increased oil production. Industrial production represents only 36 per cent of total output. Small decline compared with 1979Q2 more than accounted for by fall in manufacturing output. Nevertheless production has recovered and is now 12½ per cent above 1981Q1 trough. Services output represents around 60 per cent of total output - has grown by 12 per cent since 1979 H1.

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B2 RECENT DEVELOPMENTS IN WORLD ECONOMY

Factual

(i) Output in major countries rose 5 per cent in 1984 led by US (6¾ per cent) and Japan (5¾ per cent). 1985 has seen moderation in US growth (2½ per cent in year to Q3). Also slightly lower growth in some other countries.

(ii) Unemployment in major countries taken together remains stable at just over 8 per cent. Rather higher in EC (just under 11 per cent).

(iii) Employment now rising in OECD as a whole. Strongest growth in Australia, New Zealand, Canada, US and UK. Employment in EC estimated to be little changed on year earlier.

(iv) Consumer price inflation in OECD countries now about 4½ per cent. Less than 4 per cent in major seven.

(v) Short-term interest rates lower now in other major OECD countries than at end of 1984, except Japan where rates are slightly higher. US rates have fallen significantly; now below 8 per cent. German rates about 5 per cent. Real short-term interest rates little changed, except in US, where lower. US long-term rates fallen less than short rates. Now about 10¼ per cent.

(vi) Current account deficit of US expected to total $130 billion in 1985. Japan and Germany both running large surpluses.

(vii) Exchange rates: US $ effective peaked in February (over 157). Has since fallen back. Showed signs of strengthening in August/September but has fallen again following G5 agreement (22 September). Now down 18 per cent from peak, 7 per cent from pre-agreement level.

(viiii) Most forecasters expect growth to slow down in US, Canada and Japan, but to pick up or maintain recent levels in Europe. Employment may rise moderately, but labour force developments likely to prevent fall in unemployment. Inflation expected to stay at current levels or decline further. Forecast in Autumn Statement slightly more optimistic:

	Per cent changes on a year earlier		
Major 7 countries	**1984**	**1985**	**1986**
Real GNP	5	3	3
Consumer prices	4½	4	3½
World trade (total import volume)	8½	5	5

Positive

(i) World recovery forecast to continue in all major economies.

(ii) Employment now rising in most major economies, and expected to continue to grow in future.

(iii) Inflation in major countries on average now only a third of 1980 level despite recovery in activity. No sign of renewed inflationary pressures.

(iv) Exchange rates generally now adjusting to more realistic levels. G5 agreement important step forward in international co-operation.

Defensive

(i) European growth still slower than in US, Canada, Japan. Gap between growth rates has narrowed considerably. Slower recovery in Europe reflects structural problems.

(ii) Unemployment may rise/unlikely to fall. Employment now on upward trend. Unfortunately labour market developments have meant no general fall in unemployment. But US has seen some reduction - shows advantages of flexible labour markets.

(iii) US employment growth/unemployment fall due to budget deficits. Flexible labour market much more important - US employment has been growing faster than in Europe for some time. Fiscal stance can only affect short run position; cannot explain faster employment growth in US over longer period.

(iv) Why critical of US budget deficit? Huge deficit pushes up US interest rates. Means world interest rates generally higher - have a dampening effect on growth. High US interest rates lead to strong dollar. Result is large current account deficit and protectionist pressures which must be resisted. G5 agreement significant contribution to tackling problems, but need lower US budget deficits for long-run solution.

(v) World debt problems still serious. Yes. Domestic adjustment by some debtor countries has helped improve position, but still long way to go. Welcome positive attitude by US (Secretary Baker's Speech in Seoul) in particular on larger role for World Bank Group in adjustment process. Commercial banks must reach own judgements on what can lend to debtor countries on basis of IMF/IBRD programmes. No question of Government guarantees.

(vi) Dollar still too high. G5 countries agreed on 22 September that concerted intervention could be used to assist smooth adjustment of dollar. However, main need is to reduce imbalances in world economy, especially US budget deficit.

(vii) Japan and/or Germany need to relax fiscal policy. Important that Japan in particular should aim for better balanced growth, with more coming from domestic demand than net exports. Japanese must do more to open markets, speed up financial deregulation. Given high saving ratio, domestic consumption and investment could be safely encouraged eg in context of tax reform. Germany should be ready to respond flexibly if growth of domestic demand inadequate.

(viii) Treasury forecast of world economic prospects too optimistic. All forecasts subject to margin of error. Treasury forecast generally in line with views of OECD and IMF.

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B3 INDUSTRY ACT FORECAST - SHORT TERM ECONOMIC PROSPECTS

[See also Outside forecasts (Brief B2), Employment and unemployment (B5) Fiscal policy (D1), National Insurance contributions (E1)]

Factual

(i) Industry Act forecast gives projections of GDP and its components, manufacturing output, prices, public finances and current account for 1985 and 1986. Updates and rolls forward FSBR forecast. Attached table summarises forecast.

(ii) IAF sees 3½ per cent growth in 1985, in line with FSBR forecast. 3 per cent forecast growth for 1986 compares with FSBR forecast of 2½ per cent growth in first half of 1986. Inflation to 1985Q4 fractionally higher than 5 per cent in FSBR. PSBR for 1985-86 £1 billion higher than FSBR (2¼ per cent of GDP at market prices, compared to 2 per cent in FSBR).

(iii) Main features of Autumn Statement forecast:

(a) Inflation expected to fall rapidly. 5½ per cent increase in year to 1985Q4, 3¾ per cent to 1986Q4.

(b) Total output expected to grow 3 per cent 1986 on 1985, following 3½ per cent between 1984 and 1985. Adjusting for coal strike, growth is 3 per cent in 1985 and 2½ per cent in 1986.

(c) Non-oil GDP growth much same as total GNP growth in both 1985 and 1986.

(d) Manufacturing output forecast to rise by 2½ per cent in 1985 and 1986.

(e) Company sector income and financial surplus expected to remain at high level.

(f) Export volume forecast to rise 2 per cent in 1986 after 7 per cent in 1985. Imports to rise 3½ per cent in 1985 and 4 per cent in 1986. Current account surplus £4 billion in 1986 following £3 billion in 1985 (£4 billion adjusting for coal strike).

(g) Consumer spending growth increases to 4 per cent in 1986 as real incomes boosted by fall in inflation and rising employment. Stockbuilding contribution ½ per cent in 1986 after no contribution in 1985. Overall investment growth 3½ per cent in 1986 after 4 per cent in 1985.

(h) PSBR for 1985-86 now expected to be around £8 billion.

(j) World trade in manufactures (UK market-weighted) slows from 8½ per cent in 1984 to a forecast 5 per cent in 1985 and 5½ per cent in 1986.

(k) Output growth in major 7 OECD economies expected to be around 3 per cent in both 1985 and 1986. Inflation expected to fall from 4 per cent in 1985 to around 3½ per cent in 1986.

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(l) Effective exchange rate for 1986 assumed not to change much from average level of past few months (close to 1983 and 1984 average level.)

(m) No forecasts of unemployment provided.

Positive

(i) Inflation expected to fall to 3¾ per cent by 1986Q4.

(ii) Forecast implies average 3 per cent a year GDP growth over five years 1981-1986. 1986 will take us into sixth year of uninterrupted growth-longest period of growth since 1973 oil price rise.

(iii) 1986 forecast to be first year since 1968 when inflation and growth within one percentage point of each other.

(iv) Manufacturing output forecast to increase 2½ per cent a year in both 1985 and 1986. Forecast implies average 3 per cent a year growth over five years 1982-86. Longest period of uninterrupted growth since 1973 oil price rise.

(v) Total fixed investment expected to reach new record levels in both 1985 (£60 billion) and 1986 (£64 billion). (At 1980 prices, £44 billion pre-recession peak in 1979, £47½ billion forecast for 1985 and £49 billion for 1986.)

(vi) Forecast for current balance is surplus of £3 billion in 1985 and £4 billion in 1986. 1986 will be seventh successive year of current account surplus. No change from FSBR forecast for 1985. FSBR forecast showed £3 billion at annual rate in first half of 1986.

(vii) Exports of goods and services expected to set new record levels in 1985 and 1986. Exports in 1986 expected to be 19 per cent higher than previous peak in 1979 (£73½ billion in 1979, £75 billion in 1986 - both at 1980 prices).

(viii) Net pre-tax real rate of return for non-oil companies in 1985 expected to be highest since 1973.

Defensive

(i) Outlook for unemployment: Following long-established practice of both Labour and Conservative Governments, no unemployment forecast given. But with slowdown in labour supply growth and more people benefiting from employment measures, trend in unemployment should continue to be more favourable than over last 2 years.

(ii) Government forecasting unemployment will stick at 3 million over whole Survey period. No. Government Actuary's report contains working assumptions to 1986-87. Same assumption underlies provision for Social Security programme in 1987-88 and 1988-89 and is published in Part 3 of Autumn Statement. (See also E1)

(iii) Outlook for employment. Growing rapidly-estimated 677,000 additional jobs created (net) between March 1983 and June 1985. Rise expected to continue in forecast period. (See also B5)

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(iv) GDP growth to slow from 3½ per cent 1985 to 3 per cent 1986. FSBR foreshadowed some moderation in growth in 1986. Recovery from coal strike currently boosting growth in 1985 but will have smaller effect in 1986. Also expansion in North Sea output starts to tail off in forecast. But still implies healthy 3 per cent annual growth of GDP between 1981 and 1986.

(v) Commission forecasts put UK well down EC growth league in 1986. (Show UK growth of 1.9 per cent with W Germany 3.5 per cent, Italy 2.0 per cent). Forecasts very tentative at this stage. At same time last year, Commission were forecasting 3 per cent UK growth which now seems conservative.

(vi) Investment growth only 3½ per cent in 1986. Some slowdown in business investment to be expected after record levels of investment expected for 1985, boosted by bringing forward of investment from 1986 to forestall cut in capital allowances. Total fixed investment expected to set record levels again in 1986.

(vii) 4 per cent rise in consumers' expenditure forecast for 1986 implies big tax cuts in 1986 Budget? Growth in consumption can largely be explained by 3-4 per cent growth in real earnings and rising employment.

(viii) 1985-86 PSBR higher than forecast in FSBR. Increase of £1 billion small compared to average error of ±£4½ billion in previous forecasts and more than accounted for by £2 billion fall in oil revenues. PSBR expected to be 2¼ per cent of GDP after 3 per cent in 1984-85 - consistent with MTFS target of reducing scale of public sector borrowing.

(x) Forecast includes fiscal adjustment? Yes, includes effects of fiscal adjustment, as usual. Implicit in paragraph 1.07 of published Autumn Statement which notes that forecast follows MTFS in making assumption that PSBR will be set at 2 per cent of GDP, equivalent to £7½ billion.

(ix) Forecast shows Government expect PSBR of £7½ billion in 1986-87. No. But necessary to make assumption for purpose of forecast. Forecast therefore follows MTFS in assuming PSBR for 1986-87 set at 2 per cent of GDP, equivalent to £7½ billion.

(xi) Inflation picking up again in second half of 1986? Always wrong to read significance into small month-to-month or quarter-to-quarter fluctuations in inflation. Little underlying change in inflation rate during second half of 1986.

(xii) Export growth set to fall sharply to 2 per cent in 1986. Could not reasonably expect to repeat 7 per cent increase (to record level) in 1985. Exports in 1986 still expected to show 21 per cent increase over 1981. UK exporters of manufactures increased share of world trade between 1981 and 1984. Expected to make further gains in 1985.

(xiii) Stockbuilding: Rate of growth continues to owe little to stockbuilding. So risks of slowdown associated with de-stocking, as in previous cycles, much reduced.

(xiv) Forecast assumes fall in oil price? Prospect of worldwide excess supply of oil and futures market both suggest some fall.

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INDUSTRY ACT FORECAST - SUMMARY TABLE

		Percentage changes	
		1984 to 1985	1985 to 1986
A	**Output and Expenditure (constant 1980 prices)**		
	Gross domestic product (at factor cost)	3 ½	3
	Consumers' expenditure	2 ½	4
	General Government current expenditure	0	½
	Fixed investment	4	3 ½
	Exports of goods and services	7	2
	Stockbuilding (as percentage of GDP)	0	½
	Imports of goods and services	3 ½	4
B	**Manufacturing output**	2 ½	2 ½
		1985	1986
C	**Balance of payments on current account (£ billion)**	3	4
D	**Retail prices index (Q4)**	5 ½	3 ¾

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B4 OUTSIDE FORECASTS

[See also Industry Act forecast (Brief B3), Forecast of fiscal adjustment (C2)]

Factual

(i) Most forecasters expect monetary and fiscal policies broadly to adhere to MTFS guidelines.

(ii) Both outside and City forecasters assume that £M3 has been downgraded and expect some overshooting in both 1985-86 and 1986-87. Forecasters now assume more emphasis being placed on exchange rate.

(iii) On average, outsiders have virtually same forecast for PSBR for 1985-86 as Industry Act forecast (IAF).

(iv) Average outside GDP forecast is for growth of 3½ per cent in 1985, falling to 2¼ per cent in 1986. Major contribution in 1986 comes from consumers' expenditure.

(v) Private investment growth is expected to slow down in 1986 due to high interest rates, strong sterling and increased cost of investment finance, following 1984 reform of corporation tax system.

(vi) Strong sterling, along with decline in world trade, is expected to contribute to slowdown in export growth.

(vii) All outside groups believe rate of retail prices inflation has peaked. On average, outsiders expect inflation rate of 5½ per cent in 1985Q4, declining to 3¾ per cent by 1986Q2, before rising back to 4¾ per cent in 1986Q4.

(viii) On average, outsiders forecast unemployment to remain at around present levels to end of 1986, with strong employment growth of 1¼ per cent in 1985 and further 1 per cent in 1986. Suggests that by end-1986, around 1¼ million new jobs will have been created since spring 1983.

(ix) Outside average forecast expects current account to be in surplus by £2.4 billion in 1985 and by £2.8 billion in 1986.

(x) In medium-term, forecasters expect GDP growth to average around 2¼ per cent to 1989, with inflation remaining at around 5 per cent. Unemployment expected to stay around present levels.

Positive

(i) Outside forecasters expect positive GDP growth to continue through 1986 - into sixth successive year of sustained growth.

(ii) Inflation forecast by outsiders to fall by 1¾ percentage points by 1986Q2.

(iii) Employment growth expected to be sustained through 1986, by end of which 1¼ million jobs will have been created since spring 1983.

(iv) Current account expected to be in surplus in both 1985 and 1986, latter being seventh successive year of surplus.

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Defensive

(i) Outside forecasters predict lower GDP growth for 1985 and 1986 than IAF. Outside forecasts for GDP for both 1985 and 1986 have been revised upwards since earlier this year, gradually coming in line with IAF.

(ii) EC forecast puts UK well down European growth league in 1986. Forecasts very tentative at this stage. At same time last year, Commission were forecasting 3 per cent UK growth for 1985, which now seems conservative. (See also B3)

(iii) Outsiders more gloomy about inflation prospects. Outside forecasters have been revising down inflation forecasts for 1986 since Budget. NIESR and Liverpool now in line with IAF.

(iv) Unemployment expected to rise. No. Outside forecasters expect unemployment to stabilise around present level to end-1986. But most forecasters agree with Government that progress on jobs depends on realistic bargaining and slower growth of real wages.

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SUMMARY COMPARISON OF INDUSTRY ACT FORECAST (IAF) AND OUTSIDE FORECASTS
(except where specified, figures are percentage changes on previous year)

	IAF Nov'85	NIESR Aug'85	LBS Nov'85	Phillips & Drew Nov'85	Simon & Coates Nov'85	Outside* Average Nov'85	City* Average Nov'85
GDP							
1985	3½	3.6(0)	3.6(0)	3.6(A)	3.6(0)	3.5	3.5
1986	3	1.4(0)	2.4(0)	2.1(A)	2.4(0)	2.2	2.1
Current Account							
£ billion : 1985	3	4.4	3.4	2.8	2.5	2.4	3.1
: 1986	4	2.9	2.6	1.4	2.3	2.8	1.6
PSBR (£ billion)							
1985-86	8	7.5	7.9	7.9	7.3	7.9	7.9
1986-87	**	11.2	7.5	9.0	8.5	9.1	8.7
Retail Prices Inflation							
1985Q4	5½	5.5	5.4	5.4	5.6	5.4	5.5
1986Q4	3¾	3.5	4.3	4.8	5.6	4.7	4.8
Consumers' Expenditure							
1985	2½	2.1	2.5	2.5	2.8	2.5	2.4
1986	4	3.2	3.8	3.1	3.8	3.1	3.4
Fixed Investment							
1985	4	2.2	2.1	2.9	2.9	3.2	4.0
1986	3½	0.4	1.4	1.2	1.0	1.9	2.1
Exports of Goods and Services							
1985	7	7.2	7.3	7.7	8.1	7.2	7.4
1986	2	1.1	3.7	2.3	3.9	2.7	2.4

* Outside and City averages are derived from simple average of major independent forecasters: outsiders are NIESR, LBS, Phillips & Drew (P&D), Simon & Coates (S&C), Henley, Cambridge Econometrics, Liverpool, CBI, OECD, CUBS, Oxford and EC. City forecasters are P&D, S&C, Hoare Govett, Wood Mackenzie, James Capel, Laing & Cruickshank, Scrimgeour Vickers, Capel Cure-Myers and Midland Bank.

** No published forecast

(A) Average measure
(O) Output measure

B5 EMPLOYMENT AND UNEMPLOYMENT STATISTICS

[See also Recent developments in UK economy (Brief B1), Industry Act forecast (B2), Labour market (B6)]

Factual

(i) GB employed labour force rose by 677,000 between March 1983 and June 1985 and by 260,000 over year to June 1985 but by only 28,000 between March and June 1985.

Changes in Employment since 1979 (thousands)

	Employees in Employment	Self Employed	Total employed Labour Force*
March 1979-June 1985**	-1724	+716	-996
March 1983-June 1985	+260	+411	+677
June 1984-June 1985	+134	+126	+260

* Includes employment in armed forces

** Includes estimated increase of 145,000 'double jobbers' between June 1979 and June 1984.

(ii) Numbers in work: 600,000 is best estimate of increase in numbers in work since spring 1983. 677,000 new jobs created (net) over same period but some employees will hold two jobs. No figures for number of "second jobs" after June 1984 yet available. Estimate of numbers in work therefore includes broad brush assumption about subsequent growth of second jobs, based on earlier evidence.

(iii) Breakdown by full time/part-time work

Changes in Employees in Employment (thousands)

	Male	Female		Total
		Full time	Part time	
March 1983-June 1985	-208	+29	+438	+260

No breakdown of male employment available.

(iv) Unemployment changes by sex

Changes in Adult Unemployment (thousands/month)

	Male	**Female**	**Total**
October 1984 - April 1985	+8,000	+6,000	+14
April 1985 - October 1985	-3,000	+2,000	0

Improvement in trend concentrated among males but female unemployment has fallen in last two months.

(v) Industry breakdown

Changes in Employees in employment (thousands)

	Manufacturing	**Services**	**Other**	**Total**
March 1983-June 1985	-179	+585	-144	+260

(vi) Status of employment figures: Figures to June 1984 based on Labour Force Survey (LFS) results. Figures post June 1984 assume quarterly growth of 77,000 to cover growth in self employed and offset persistent under-recording of employees.

(vii) Unemployment trend: October figures showed 4,000 fall in adult seasonally adjusted count (13.1 per cent of employee labour force) producing average change of zero over last six months. Trend now broadly flat compared with 10-15,000 increase over last two years.

(viii) Unemployment prospects: No forecast given but with more people benefiting from employment measures, and with prospect of some slowdown in labour supply growth, trend in unemployment should continue to be more favourable than over last two years.

(ix) Growth in labour force: Labour force rose by 510,000 in 1984 - largest rise in single year since figures collected. More married women taking jobs and 1960s "baby boom" generation entering labour force.

(x) Numbers of first degree home graduates believed unemployed fell to 9.6 per cent in 1983-84 from 13.5 per cent in 1981-82.

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(xi) International comparisons of employment

Civilian Employment

(percentage change 1983Q1-1985Q2 at annual rate)

US	+3 ¾
Japan	+ ½
W Germany	+ ¼
France	-1
Italy	+ ½
UK	+1 ½

(xii) UK proportion of people in work compared with other major countries

Total employment as percentage of population from 15 to 64

	UK	**Japan**	**W Germany**	**France**	**US**	**Italy**	**EC**
1983	65	71	60	61	66	65	59
1960-83 average	70	71	67	66	64	57	65

Source OECD Historical Statistics 1960-82 and 1963-83

(xiii) **Percentage of people working particular hours**

hours	1-8	9-24	25-34	35-61	62+
employees	3	13	7	77	-
self employed	4	8	6	78	4

Positive

(i) Increase in GB employed labour force - 677,000 since spring 1983 - more than whole of rest of Community in same period.

(ii) Employment prospects: OECD project UK to have highest growth in employment in 1986 among European countries. CBI staff forecasts imply that by end 1986 1 million new jobs will have been created since spring 1983. Industry Act forecast implies employment growth into 1986.

(iii) UK has one of highest proportions of people in work (around 65 per cent) amongst all major industrial countries and well above European average (59 per cent).

(iv) Service employment at record 13.6 million.

(v) Number of graduates finding employment highest for decade.

(vi) After two years of decline, averaging 10-15,000 a month, unemployment trend now stable. Male unemployment has fallen by average 3,000 a month since April. Flows on and off unemployment register well above 1984 level. Growth of labour force should now be slackening.

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(vii) Unfilled vacancies have risen strongly since 1985Q1 and currently at highest level since March 1980.

Defensive

(i) Improvement in unemployment trend due solely to effects of special measures. In year to April 1985, unemployment rose by just over 160,000 (seasonally adjusted, excluding school leavers). Since April, on this basis, unemployment has stopped rising. Main impact of expansion of Community Programme (CP) still to be felt. Extension of Youth Training Scheme (YTS) to two years and restructuring of employers' NICs will start to have effect in 1986. Bulk of recent improvement in unemployment trend seems to be response to higher economic activity.

(ii) Employment and training measures less effective this year than last. (FT letter of 5 November, quoting figures from monthly DE press releases on employment and training measures, purported to show that in 6 months to September 1985, special measures had been less effective in reducing headline count than last year.) Recent comparisons affected by rundown of some schemes, such as Job Release Scheme, offsetting increased provision in CP and YTS places. But in most recent month - September - measures were reducing headline count by 5,000 more than a year ago. YTS should not in any case be judged solely by effect on unemployment but also by useful training it offers to both unemployed school leavers and young employees.

(iii) Employment growth tailing off (rose by only 28,000 in 1985Q2). No. Change between successive employment counts volatile. Better to look at change over past year or two. Shows good employment growth.

(iv) Employment growth largely result of arbitrary estimates for self-employed and under-recording. Figures post-June 1984 include quarterly growth allowance of 77,000 for self employed and under-recording of employees. While less firmly based than estimates to June 1984, no reason to suspect upward bias. (In fact, initial estimates to June 1984 were revised upwards when results of 1984 LFS were analysed.) Will certainly be revised when results of June 1985 LFS become available early in 1986.

(v) Employment growth since 1983 more than accounted for by increase in part time female employment and self employed. Nothing wrong with this. Indicates flexibility of labour market in these areas. Self employment rising since mid 1960s. Has increased by almost 1 million over past decade to around 2½ million. Growth in part time female employment has accounted for over half increase in employment. Very similar picture under Labour 1976 to 1979.

(vi) Bank of England have adjusted part time workers to full time equivalents and show only 45,000 increase in employees in 1984. No unique way of calculating full time equivalents. Bank calculation did not attempt to cover self employed - up 198,000 in 1984. On any reasonable assumption, full-time equivalents have shown healthy growth since spring 1983.

(vii) Hattersley claim that if person works only 1 hour a week that counts a job. Yes. True of employment statistics under Labour too. But 1984 LFS results demonstrate that very few respondents work particularly short week. Over three quarters work at least 35 hours a week and only 3 per cent work under 9 hours a week (see factual (xiii)).

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(viii) True level of unemployment much higher than official estimates. No. Lord Young in 'Times' 5 October showed absurdity of claim that level much higher than official estimates. While published totals based on claimants exclude (870,000) actively seeking work (eg married women not entitled to benefit), include (940,000) not looking for a job (eg single parents bringing up children). OECD 'standardised rate' follows ILO conventions and shows little difference from rate on UK national definitions.

(ix) Prospects for unemployment: No forecast given, following long established practice of both Labour and Conservative Governments, but trend should continue to be more favourable than over last two years. Progress in creating jobs depends on realistic wage bargaining and slower growth of real wages

(x) Manufacturing employment falling again and CBI project further decline. Average monthly fall in 3 months to August was 3,000. Contrasts with falls averaging 14,000 a month through 1970s and early 1980s. CBI expect further fall to January but note pace slackening and that small firms expect to take on more workers.

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B6 LABOUR MARKET

[See also Employment and unemployment (Brief B5), National Insurance contributions (E1), Capital/current and infrastructure spending (G5), Employment (H9)]

Factual

(i) Measures

(a) National Insurance Surcharge (NIS): 3½ per cent when Government took office in 1979. Progressively reduced and finally abolished in October 1984.

(b) National Insurance contributions: 1985 Budget introduced earnings bands, with graduated structure of rates, and abolished upper earnings limit on employers' NICs. (See also E1).

(c) Extension of Youth Training Scheme (YTS) and expansion of Community Programme (CP) announced in 1985 Budget; increases total about £600 million in 1986-87 and £800 million in 1987-88.

(d) £40 million (from within existing programmes) announced in Budget to finance more higher education places in engineering and technology.

(e) Relaxation of legislative restraints on labour market:

(1) wef 1 June 1985 extension to two years of qualifying period for claims of unfair dismissal for all employers - previously only applied to small businesses

(2) reform of Wages Councils

(3) trade union reform (eg funds for secret ballots)

(f) Increase of income tax thresholds by more than inflation.

(g) "Enterprise" measures to encourage small businesses and self-employed: extension of bad debt relief, abolition of Development Land Tax, reform of Capital Gains Tax, NIC restructuring, action on higher tax rates and thresholds and encouragement (including tax incentives) for profit sharing and share option schemes.

(h) Department of Employment Group plans announced in Autumn Statement allow for expansion of Enterprise Allowance Scheme to provide around 15,000 extra places a year by 1987-88 (see H9).

(ii) Philosophy

(a) Given MTFS commitment to maintain adequate growth of money demand, slower growth of pay means:

(1) more jobs for any given growth in output, as labour becomes cheaper relative to other factors of production;

(2) lower inflation and more growth in output.

(b) Overall, empirical evidence suggests that if real wages were 1 per cent lower than otherwise (through slower growth in money wages) and money demand were maintained as in MTFS, employment could be ½-1 per cent higher in long run - an extra 110,000 to 220,000 jobs.

(c) OECD study (OECD Economic Outlook, June 1985) suggests link between degree of real wage rigidity and growth in unemployment. UK has high wage rigidity and high unemployment.

Positive

(i) Abolition of NIS, "tax on jobs", removed heavy burden from industry. At 3½ per cent, would have cost private sector £3½ billion in 1985-86.

(ii) NIC restructuring encourages employers to take on young and unskilled where unemployment fiercest. Reduces burden on low paid and alleviates poverty and unemployment traps. Outside estimates of resulting number of jobs created range as high as 400,000. (See also E1)

(iii) Budget increases in YTS and CP together expected to reduce unemployment directly by 150,000 by spring 1987 and 200,000 by spring 1988.

(iv) Reform of Wages Councils should improve job prospects, particularly for young and unskilled. "High minimum wages restrict employment openings and opportunities to upgrade skills, especially among the young". (OECD Economic Outlook, June 1985)

(v) Trade union reform already bearing fruit eg NUR guard demanning, creation of Union of Democratic Mineworkers.

(vi) Personal tax allowances increased by 20 per cent in real terms since 1979. Alleviates poverty and unemployment traps.

(vii) Enterprise Allowance Scheme has already helped over 100,000 people to set up in business and applicants joining at rate of 1,250 per week.

(viii) MTFS guarantees that lower growth in wages will lead to more jobs - not inadequate nominal demand.

(ix) International experience:

1974 - mid-1984

	Employment	**Real Weekly Earnings**
US	+19 million	-9 per cent
UK	-1 million	+12 per cent

OECD study shows Japan, with most flexible wages, has had smallest growth in unemployment.

Defensive

(i) Job opportunities forgone: real pay up 2-3 per cent a year since 1981, so benefits of economic recovery going to those in work, enjoying record living standards, at expense of unemployed.

(ii) Best way to create jobs is to have bigger PSBR, boosting demand. No shortage of nominal demand. Money GDP grew by over 9 per cent in year to 1985H1, despite effects of coal strike. MTFS ensures continuing adequate rise in money demand. Need is for lower inflation and higher real output. Higher PSBR would push up interest rates and inflation; gains in output and employment would be short lived.

(iii) CBI call for reduction in employers' costs (one or two per cent a year). Government has already abolished NIS and restructured NICs. But if companies agree excessive pay settlements, cannot expect nation to subsidise by reducing NICs or to take risks with inflation by cutting interest rates too hastily. (See also E1).

(iv) Extra infrastructure spending better than than tax/NIC cuts for creating jobs. In short run, though not long term, demand effects of tax cuts may well be less than for extra public spending. But no lack of demand in economy. Choice must depend for effect on supply performance. Here reduction and reform of tax and NICs help stimulate enterprise and initiative. Low tax economy (eg US, Japan) works better and generates more growth and jobs than high tax economy . Case for infrastructure investment, as for private investment, must therefore rest on adequate returns. (See also G5)

(v) Simulations on computer models, including Treasury model, show more jobs would result from extra infrastructure spending. Only true for first couple of years of simulation. Beyond that, additional employment eroded by inflation and interest rates higher than following tax cuts. Need to examine effects on supply performance on which most models silent. (See also G5)

(vi) Lower wages mean lower aggregate demand, and so fewer jobs. No. MTFS designed to ensure total money demand will be maintained if wage growth slows down. Improved competitiveness and increased profits will raise export demand and companies' expenditures. Any fall in consumers' expenditure will soon be reversed by effects of extra employment and increases in real wealth. Aggregate real demand will rise.

(vii) Government arguing that those in work should take cuts in real pay. No. Slower growth in real pay would be sufficient to generate more jobs in the long run.

(viii) Government policies will create low wage, low productivity economy. No. Government aims for high wage, high productivity economy, but productivity must come first. If wage growth precedes growth in productivity, unemployment will only rise still higher.

(ix) How is wage growth to be reduced? Pay is matter for negotiation between employer and employee. But Government encouraging greater labour market flexibility in fields of taxation, trade union reform, training etc. More flexible labour markets should mean more realistic pay settlements.

(x) Low wage regions often have high unemployment. For given industrial structure, moderation in pay settlements will benefit jobs in depressed regions just as it does across country as whole. Government seeking to deal with problems of areas of high unemployment through regional policy.

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C1 AUTUMN STATEMENT CONTENTS AND CHANGES SINCE 1984

[See also Forecast fiscal adjustment (Brief C2), Fiscal policy (D1), Public expenditure 1986-87 to 1988-89 (G2), Running costs (G4)]

Factual

(i) Statement brings together announcements generally made in autumn. It includes:

(a) economic forecast, which provides information required by 1975 Industry Act;

(b) agreed public expenditure plans for 1986-87, 1987-88 and 1988-89;

(c) proposed changes in National Insurance contributions from April 1986;

(d) ready reckoners of direct revenue effects of illustrative changes in major taxes.

(ii) 1985 Statement differs in number of ways from its predecessor.

1. Major

(a) Provides three years' rather than one year's expenditure plans.

(b) Contains no forecast fiscal adjustment and no revenue forecasts for future years (see C2).

(c) Includes departmental breakdown of estimated outturn for current financial year.

(d) Contains no assumption on increase in central government rates of pay.

(e) Local authority relevant current and nationalised industry external finance element of departmental totals identified separately.

NB Government has agreed to adopt departmental basis for Public Expenditure White Paper (PEWP) to enable read-across from Autumn Statement to PEWP.

2. Technical

(a) Table 1.9 now shows relationship between public expenditure planning total and general government expenditure (as in FSBR).

(b) Table 2.1 now shows general government expenditure (rather than public expenditure planning total) as percentage of GDP. (Brings Autumn Statement into line with MTFS.)

(c) Colour has been introduced in Part 2 to provide clearer presentation.

(iii) Treasury and Civil Service Committee (TCSC) were critical of number of aspects of content of last year's Autumn Statement. Argued that:

(a) Debt interest should be included in planning total and privatisation proceeds should not be treated as negative public expenditure.

(b) A departmental split of current year's estimated outturn should be included.

(c) A reappraisal of relative rates of return for all nationalised industries should be undertaken.

(iv) In its reply Government

(a) reaffirmed its position on debt interest and privatisation proceeds (see Defensive (iii) and (iv) below).

(b) accepted that a departmental split should be provided (see (ii) 1(c) above).

(c) noted that because financial targets span a fixed period of time, typically 3 years, they are already systematically reviewed. Further reappraisal was seen as unnecessary.

(v) No mention of manpower or civil service running costs in Autumn Statement. Chief Secretary confirmed in Written Answer on 22 October (OR Vol 84 WA 125) that limits will be set for each department's expenditure on administration from 1986-87 onwards. Limits will be announced early 1986. Discussions in hand with Public Accounts Committee (PAC) and TCSC on presentation of limits in Estimates. With running costs regime, pay assumption no longer appropriate (see also G4).

Positive

(i) Fourth successive Autumn Statement. By providing expenditure plans for 3 years ahead and departmental breakdown of estimated outturn for current financial year, Parliament being given more information than in past. Changes respond to requests from TCSC.

(ii) Statement again published very quickly after Cabinet settled public expenditure plans.

Defensive

(i) Why no revisions to the MTFS? MTFS is updated annually each Budget. As its name implies, provides framework for economic policy over a period of years ahead. Not consistent with this to revise it every few months. (See also D1)

(ii) Removing fiscal adjustment a retrograde step Government something to hide? No. (See also C2)

(iii) Debt interest should be included in planning total. Planning total is control total. Debt interest payments not amenable to control within relatively short period of Survey so excluded from planning total. But debt interest taken into account in overall fiscal planning.

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(iv) PSBR figures should exclude privatisation receipts. Present treatment in line with accounting systems recommended by international organisations for economic and government accounting. In nearly all cases, acquisition of these assets increased government spending and borrowing: entirely logical that receipts should reduce spending and borrowing now they are being sold. Composition of PSBR taken into account when assessing size of PSBR at time of Budget (see also D1).

(v) Using general government expenditure (rather than planning total plus net debt interest) to calculate public spending as percentage of GDP means figure 2-4 percentage points higher than in Cmnd 9428 and FSBR: See G2.

(vi) Why no civil service manpower details with this year's statement? Statement concerns totals of public expenditure, highlighting priorities for programmes. Running costs limits will be contained within totals when set. Details being finalised and discussions in hand with PAC and TCSC on presentation in estimates. Chief Secretary has confirmed running costs limits for each department will be announced early next year. (See also G4)

Contact point: D N Walters (CU) 233 8652

C2 FORECAST FISCAL ADJUSTMENT

[See also Fiscal policy (Brief D1)]

Factual

(i) Autumn Statement this year gives 3 years' expenditure plans.

(ii) No forecasts of revenue in Autumn Statement in any of 3 years.

(iii) Does not therefore subtract one from other to give fiscal adjustment. Practice of calculating fiscal adjustment for year ahead has been discontinued.

Positive

(i) Providing expenditure plans for 3 years ahead new step. Gives Parliament more information than in past. Responds to request from Treasury and Civil Service Committee (TCSC).

(ii) Fiscal adjustment calculation for year ahead which has been dropped was pure arithmetic. Imparted no genuine new information. Difference between decisions and forecast based on conventional assumptions.

(iii) Fiscal adjustment calculation, first introduced in 1982, has been increasingly misinterpreted as giving guide to Government's intentions in forthcoming Budget. Notwithstanding repeated health warnings, has caused damaging speculation at home and ferment in financial markets. Played a large part in sterling slide in winter of 1985. Government has accordingly decided to drop it.

(iv) Proper time to give this information is in Budget. MTFS figures are reviewed then. And revenue forecasts will inevitably be different from those based on present information which is incomplete and out of date by time of Budget.

Defensive

(i) Removing fiscal adjustment a retrograde step? Government something to hide. No. Old fiscal adjustment figure no more than arithmetic. Based on difference between Government's decisions on expenditure plans and forecast revenue (on which no decisions were made), and on PSBR as shown in 1985 MTFS. In past, Autumn Statement forecasts of fiscal adjustment made in subsequent Budget were subject to margin of error of $\pm$£1½ billion. New revenue forecast prepared and MTFS itself further reviewed before Budget. Fiscal adjustment figure published in Autumn Statement therefore very uncertain (but commentators frequently overlooked this).

(ii) No fiscal adjustment means commentators cannot use Autumn Statement to produce their own Budget representations - defeats purpose of Autumn Statement. Fiscal adjustment forecast never intended to be basis for Budget representations. Subject to margin of error; gave little useful information; and no operational decisions could or should have been based on it. Partly because commentators interpreted it as basis for Budget representations that Government has now decided to discontinue publication.

(iii) Withholding information from Parliament. Fiscal adjustment figure included for first time when Autumn Statement introduced in 1982. Always expected that Autumn Statement would evolve over time. Experience shows fiscal adjustment not helpful and can be damaging, so now dropped. Autumn Statement, however, further developed to include 3 years' expenditure plans.

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C2

(iv) Treasury must have produced, internally, revised revenue forecasts for 1986-87. How can you justify not giving them? Many more forecasts produced internally than are published. No presumption that they should all be published, particularly when no operational decisions based on them. Indeed, presumption is of no unnecessary publication of information where it is market-sensitive (eg interest rates). Publishing revenue forecasts could lead commentators to derive implied Government fiscal adjustment forecast. Experience shows such speculation, when apparently based on Government figures (which inevitably have special status), can unsettle markets. Plenty of outside forecasts available.

(v) Autumn Statement unbalanced - three years' expenditure figures but not revenue. Not comparing like with like. Expenditure plans are outcome of Government's decisions on departments' spending. Revenue figures published in Autumn Statement are forecast with no policy commitments. Revenue and expenditure brought together in MTFS at Budget time. Government has never undertaken to update MTFS in Autumn Statement.

(vi) What about 'revenue determines expenditure'? Revenue does indeed determine expenditure. As Chancellor told TCSC in April, 1984 "Green Paper sets out very clearly the taxation objective in the medium term which determines what public expenditure we think we can afford" - eg that it should remain flat in real terms. MTFS reviewed each year at Budget time against this background; revenue and expenditure totals then determined. Autumn Statement gives departmental breakdown of these totals; not itself an update of MTFS.

(vii) Forecast of fiscal adjustment published in Autumn Statement not necessarily good guide to actual adjustment made in subsequent Budget. Table attached shows "forecasting error" has ranged from 50 per cent to 250 per cent since 1982. So published figure in Autumn Statement has had little predictive value.

(viii) Government could publish fiscal adjustment and give adequate warning about uncertainties. Experience shows warnings are not heeded. Extensive "health warnings" in 1984 - eg in Chancellor's oral statement on 12 November and in printed Autumn Statement:

> "Any estimate of the extent of the fiscal adjustment for 1985-86 is extremely uncertain: it depends on revenue and expenditure estimates all of which are subject to major uncertainties in both directions."

Warnings repeated by the Chancellor in his Sunday Times article, "A Budget for Jobs", Sunday, 30 December.

> "(And I may add that I wish I were as confident as the press appear to be that I will have even half the scope for tax cuts that they write about)."

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C2

AUTUMN STATEMENT

PREDICTION OF FISCAL ADJUSTMENT

£ billion

Date of Autumn Statement	Forecast for	PSBR		Fiscal adjustment*			
		Autumn Statement forecast	FSBR forecast	Forecast in Autumn Statement	Made in FSBR	Difference° (4)-(3) - (2) + (1)	Error ° as a proportion of original forecast
		(1)	(2)	(3)	(4)	(5)	
1982	1983-84	8	8.2	+1	+1.7	+ ½	50
1983	1984-85	8	7.2	- ½	-	+1 ¼	250
1984	1985-86	7	7.1	+1 ½	+0.7	- ¾	50

* + = lower taxes

° adjusted for difference in PSBR forecast

+ = higher adjustment in FSBR

D1 FISCAL POLICY 1985-86 TO 1988-89

[See also Recent developments in world economy (Brief B2), Employment and unemployment (B5), Labour market (B6), Forecast fiscal adjustment (C2), Alternative policies (D3), Public expenditure in 1985-86 (G1), Privatisation (G3), Energy (H7)]

Factual

(i) Government's fiscal policy is set out in MTFS, last updated at Budget time in 1985 FSBR.

(ii) Autumn Statement includes commentary on fiscal developments in 1984-85 and 1985-86.

(iii) Autumn Statement does not give revenue projections for future years and makes no estimate of 1986-87 fiscal adjustment (see C2). But Part 2 of published document does give public expenditure planning total and general government expenditure as a proportion of GDP for next 3 years.

(iv) 1985 MTFS reaffirmed need for lower public borrowing. Illustrative path for PSBR published in FSBR and corresponding figures for 1984-85 and 1985-86 published in Autumn Statement:

PSBR		1984-85	1985-86	1986-87	1987-88	1988-89
(a)	**FSBR**					
	£ billion	10½	7	7½	7	7½
	As percentage of money GDP	3¼	2	2	1¾	1¾
(b)	**Autumn Statement**					
	£ billion	10.2	8	-	-	-
	As percentage of money GDP	3	2¼	-	-	-

(v) Average errors in PSBR forecasts at this time of year: about ±£2½ billion, equivalent to around ¾ per cent of money GDP.

(vi) Cumulative PSBR to September was £5.6 billion. Estimated outturn for October PSBR, and for first 7 months, will be published 18 November.

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(vii) Key PSBR components

£ billion°°

	1984-85 FSBR	1984-85 AS	1984-85 Change	1985-86 FSBR	1985-86 AS	1985-86 Change
Planning total	129½	129½	-	134	134	-
O/w : privatisation proceeds	(-2)	(-2)	(-)	(-2½)	(-2½)	(-)
coal strike costs	(2½)	(2½)	(-)	(½)	(1¼)	(+½)
Interest payments	16½	16	-½°	18	18	-
Less PCMOB*	1	1	-	-2½	-1	+1
Other adjustments	4	5	+½°	5	5	-
General government exp	149½	149½	-	159½	158	-1½
North Sea revenues	12	12	-	13½	11½	-2
Non-NS taxes	93	94	+1	100	101	+1
Nat Ins Cont'ns etc	22½	23	-	24½	24½	-
Interest and other rec'ts	11	10½	-½	12	12½	+½
Accruals adjustment	1	1	-	-	-½	-1
General gov't receipts	140	140½	+½	150	149	-1½
GGBR	9½	9	-½	9½	9	-
Plus PCMOB*	1	1		-2½	-1	+1
PSBR	10½	10**	-½	7	8	+1
O/w : coal strike costs	(2¾)	(2¾)	(-)	(½)	(1¼)	(+½)
PSBR as % of GDP	3¼	3	-	2	2¼	+¼

* Public corporations' market and overseas borrowing.

° Classification change (mostly).

** 10.2 or 3.1 per cent of GDP.

°° All £ figures (except for coal strike costs) rounded to nearest £½ billion. Coal strike costs rounded to nearest £¼ billion. PSBR as % of GDP rounded to nearest ¼ %.

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(viii) Changes to 1985-86 figures since publication of FSBR

(a) On planning total, see G1. On privatisation proceeds, see G3. On coal strike costs, see H7.

(b) PCMOB has changed simply because public corporations now expected to borrow less from central government and to repay less to market - split depends on eg relative interest rates. (GGBR remains broadly unchanged because increase in local authority borrowing offsets reduction in central government borrowing to lend to public corporations.)

(c) Reduction in North Sea revenues due to higher £/$ exchange rate than assumed in FSBR.

(d) Increase in non-North-Sea taxes due to higher expenditure taxes and higher onshore company taxes (because of higher than expected receipts so far in 1985-86 and also, in case of company taxes, because higher profits in 1984 than estimated earlier). (In 1984-85, increase is in accrued taxes, but not in tax receipts, and is offset by change in accruals adjustment - see (f).)

(e) Increase in interest and other receipts due to various small changes.

(f) Change in accruals adjustment mainly reflects change in treatment of subsidies to Coal Board paid in 1985-86 in respect of 1984-85 deficit. In FSBR these payments were treated as accruing in 1985-86. Now treated as accruing in 1984-85. Planning total is not affected. (Corresponding change in 1984-85 offset by other differences, principally larger than expected accruals adjustments to taxes on income and expenditure.)

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(ix) Historic comparisons of PSBR/Money GDP ratios

Per cent

	Rounded PSBR	PSBR	Unrounded PSBR excluding privatisation proceeds	PSFD*
1971-72	1¾	1.6	1.6	1.1
1972-73	3½	3.6	3.6	3.0
1973-74	5¾	5.8	5.8	4.6
1974-75	9	8.9	8.9	6.7
1975-76	9¼	9.3	9.3	7.4
1976-97	6½	6.4	6.4	5.8
1977-78	3½	3.6	3.9	4.4
1978-79	5¼	5.4	5.4	4.9
1974-75 to 1978-79	6¾	6.7	6.8	5.8
1979-80	4¾	4.8	5.3	3.9
1980-81	5½	5.4	5.5	5.1
1981-82	3¼	3.3	3.3	2.2
1982-83	3	3.1	3.3	3.0
1983-84	3¼	3.2	3.6	3.9
1984-85	3	3.1	3.8	3.8
1979-80 to 1984-85	3¾	3.8	4.1	3.7
1985-86 (projected)	2¼	2.2	2.9	3.1

* Public sector financial deficit

Positive

(i) Government's strategy to maintain monetary conditions which will bring about further reduction in inflation, supported by lower public sector borrowing, remains on course.

(ii) Steady pursuit of MTFS policies has enabled economy to enter fifth year of sustained growth at average rate, so far, of 3 per cent a year, accompanied by fall in inflation from average of 15 per cent (and rising) under Labour to less than 6 per cent now (and falling).

(iii) Autumn Statement confirms prospect of continued strong growth and falling inflation, with public expenditure as proportion of GDP continuing its downward trend since peak year of 1982-83.

(iv) PSBR in 1985-86 expected to be lowest as percentage of money GDP (2¼) since 1971-72.

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Defensive

(i) Cumulative PSBR to September suggests revised forecast for 1985-86 still too low. No. Borrowing is usually high in first half of year.

(ii) Yet another PSBR overshoot undermines credibility of MTFS. PSBR now forecast for 1985-86 not significantly different from that expected at Budget time.Changes in 1984-85 and 1985-86 PSBR figures not great considering margins of error in FSBR forecasts:

(a) March 1985 PSBR not available for FSBR but outturn for 1984-85 very close to FSBR forecast (only £0.3 billion different).

(b) Margin of error on 1985-86 forecast was ±£4½ billion at time of FSBR; is still ±£2½ billion.

(iii) Expansion of privatisation programme 1986-87 onwards means that PSBR targets should be reduced. Autumn Statement gives no forecast of, still less any advance indication of judgement which will be made of, PSBR for 1986-87. Will be set at time of 1986 Budget. Scale of privatisation proceeds one factor (among many) to be taken into account when deciding appropriate level of PSBR. Wait for Budget. (See also G3)

(iv) Privatisation programme expanded to finance tax cuts. Higher figures reflect increasing momentum of manifestly popular and successful programme which will run well beyond this Parliament. No decision yet taken about stance of policy in 1986-87. MTFS will be reviewed before next Budget taking account of all relevant factors, including composition of public expenditure.

(v) Autumn Statement shows fiscal policy loosening. Fiscal policy tight. Forecast shows 1985-86 PSBR 2¼ per cent of GDP. Even excluding privatisation proceeds, not quite 3 per cent. No decision yet taken about stance of policy in 1986-87. Wait for Budget.

(vi) General case for tax cuts: Autumn Statement deliberately contains no forecast fiscal adjustment (see C2). For level of taxes in 1986-87, wait for Budget. But over period of years, Government certainly committed to achieve reductions in personal tax burden. Individual, nor State, best placed to decide how his own money should be spent. Government should not seek to preempt that responsibility by taking ever-increasing proportion of income in form of tax. Cuts in taxes stimulate enterprise and efficiency and lay foundation for steady growth and jobs that last.

(vii) What is central government/local authority/public corporations' borrowing in 1985-86? No estimate of sectoral split of PSBR forecast given at this stage of year. Even in FSBR, split only notional, based on notional allocation of Reserve (CGBR(O) £5.8 billion, LABR £1.5 billion, PCBR - £0.2 billion). But main reasons for higher PSBR are:

- higher local authority borrowing because of expected overspend on capital

- higher public corporations' borrowing because of higher coal strike costs (see H7).

Central government own account borrowing not very different from FSBR: lower North Sea taxes offset partly by higher other receipts, partly by lower central government expenditure (though note that expenditure split in FSBR was only notional, like borrowing split).

(viii) MTFS should be updated in light of Autumn Statement. MTFS will be updated in 1986 Budget. MTFS is a medium term strategy. Wrong to aim at more frequent updatings. Experience shows that constant tinkering with macroeconomic policy destroys continuity of economic strategy and harmful to economy.

(ix) Present strategy not consistent with any fall in unemployment. Government's supply side measures to increase labour market flexibility will help to provide more jobs. Already seen some improvement in unemployment trend. But sustained fall in unemployment depends critically on realism in pay settlements. MTFS provides policy framework for lasting reduction in unemployment.

(x) US budget deficit has boosted US output and employment. Job gains in US are result of enviable labour market flexibility, not unsustainable budget deficits. Should copy that.

Contact points:

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Remainder	J W Grice (MP1) 233 8911

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D2 MONETARY AND EXCHANGE RATE DEVELOPMENTS AND POLICY

[See also Alternative policies (Brief D3)]

Factual

A MONETARY POLICY

(i) Monetary aggregates

Provisional money figures, banking October:

annualised percentage growth rates (seasonally adjusted)

	Banking October	Latest 6 months	Latest 12 months
MO	-¼	1½	3½
£M3	¾	13½	14½

- Provisional money figures for banking October show MO growth close to lower end of target range (12 month rate 3½ per cent; target range 3-7 per cent).

- £M3 continues to grow well above Budget target range which, with benefit of hindsight, clearly set too low (12 month rate 14½ per cent; Budget target range 5-9 per cent). Other broad money indicators growing rapidly.

(ii) Funding: Chancellor indicated (Mansion House speech, 17 October) aim in broad terms to fully fund PSBR over year as whole. Overfunding in banking October should be seen in context of cumulative underfund in financial year to banking September and uneven path of PSBR through year. Policy remains exactly as stated.

(iii) Interest rates: Clearing banks last cut base rates by ½ per cent, to 11½ per cent, on 29 July. Fall of 2½ per cent since Budget. (Table attached shows key interest and exchange rate movements since December 1984.)

(iv) Mortgage rates: Matter for Building Societies and banks. Building Societies reduced mortgage rates to 12¾ per cent on 15 August wef 1 September.

B EXCHANGE RATE

(i) Exchange rate policy: No exchange rate target. But exchange rate inevitably assumes increased weight in monetary policy decisions when signals from various measures of money become difficult to interpret. Relationship between interest rates and exchange rate can alter over time, but no change in determination to achieve further reduction in inflation.

(ii) G5 agreement (22 September): Essential to resist protectionist pressures. In view of present and prospective changes in fundamental economic conditions, G5 agreed some further orderly appreciation of main non-dollar currencies against dollar desirable. Since agreement, yen up 16 per cent, DM 8½ per cent, sterling 3½ per cent - at 8 November.

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D2

Positive

A MONETARY POLICY

(i) Government remains firmly committed to maintenance of sound financial conditions, to secure appropriate growth of money GDP over medium-term and sustained and steady downward pressure on inflation. Balance of evidence clearly indicates that despite recent behaviour of £M3, monetary conditions are consistent with objectives for inflation.

(ii) Experience continues to confirm value of clear commitment to MTFS and ultimate objective of lower inflation. Record on inflation demonstrates success of this approach.

(iii) Interest rates will continue to be held as high as is needed to maintain monetary conditions that will keep steady downward pressure on inflation, but no higher. Rates down 2½ per cent since Budget. Chancellor said (Mansion House speech) that cautious approach remains right.

B EXCHANGE RATE

G5 agreement shows determination of main industrialised countries to pursue similar policies to keep inflation down and create conditions for stable growth. Limits to extent intervention can alter exchange rates, but concerted intervention can and has been effective in encouraging adjustments. More needs to be done, especially in correcting domestic imbalances (US fiscal deficit, Japanese trade surplus).

Defensive

A MONETARY POLICY

(i) Abandoning £M3 (and other broad money indicators): No. Chancellor made clear in Mansion House speech that authorities will continue to monitor £M3 as part of forming overall judgement about monetary conditions. But target set in March now seen to be too low, in view of apparent changes in pattern of desired liquidity levels of companies and personal sector generally.

(ii) £M3 should be brought back within target range. In current circumstances, attempting to bring £M3 back within range set in March would imply unwarranted tightening of monetary conditions (see Mansion House speech).

(iii) £M3 target should be revised. Chancellor will, as usual, consider monetary targets to be set for 1986-87 at time of next Budget.

(iv) Should have a money GDP target. Chancellor said (Mansion House speech) "steady downward pressure on inflation ..... can only be secured by delivering an appropriate growth of money GDP over the medium-term". But intermediate targets remain vital part of strategy for achieving that aim.

(v) Backdoor reflation via monetary policy: No. Growth achieved through prudent fiscal and monetary policies, against background of more competitive, deregulated and productive economy.

(vi) Effect of new funding policy? Will lead to still higher £M3 growth. Overfunding introduces distortions into financial markets which are undesirable in themselves and can make policy harder to operate. So no longer seeking to control recorded growth of £M3 by systematic overfunding. Chancellor pointed out (Mansion House speech) progress towards Government's inflation objective can be maintained while £M3 is above target range. Monetary conditions are at present consistent with continued lower inflation.

(vii) Funding to date and through rest of year: Aim is to fully fund PSBR over year as whole. But important to bear in mind uncertainty surrounding PSBR forecasts at this stage in year. Banking month PSBR figures not directly related to PSBR over exact financial year.

(viii) Bill mountain: Bill mountain already £3 billion down from July peak. Overfunding was prime cause of growth. Removal of distortions in financial markets should make task of managing money markets easier.

(ix) Interest rate assumptions in Autumn Statement: Projections in Autumn Statement based on fiscal and monetary policies outlined in 1985 FSBR and Chancellor's Mansion House speech. Not practice to reveal market sensitive assumptions about future interest rates underlying projections. [If pressed on effect on ECGD and Housing programmes: increases mainly reflect changed economic conditions since Cmnd 9428 - see H8 and H11.]

(x) Interest rates should be reduced (to help industry). No risks can be taken with inflation. Interest rates will remain as high as is necessary to ensure this, but no higher. Short-term rates have fallen 2½ per cent since Budget. Far greater damage to industry if inflation were allowed to take hold again.

(xi) Sterling lending grew by about £2.1 billion in banking October, above average level of recent increases. But £1.6 billion average over last 6 months lower than £1.8 billion in preceding 6 months.

B EXCHANGE RATE

(i) Sterling overvalued: Key to success in export markets is efficiency and lower unit costs, especially labour costs. Competitive devaluations merely lead to inflation and further market and job losses. Since G5 agreement, DM and especially yen have risen further against dollar than has sterling. (Yen up 16 per cent, DM 8½ per cent, sterling 3½ per cent - at 8 November.)

(ii) ERM membership: No change in UK position. Will consider joining when moment is right. Difficulties are sterling's petrocurrency status and risk of additional strain on ERM mechanism from introduction of second widely traded currency, especially when dollar is volatile.

(iii) Exchange rate underlying Industry Act forecast: Forecast assumes effective exchange rate for 1986 will not change much from level since March 1985 which was close to average for 1983 and 1984. As always, assumption not forecast or target. [If pressed: effective exchange rate index averaged 80.5 April-October 1985; 81.0 1983-84.]

Contact points:

Domestic monetary questions	T Tarkowski (HF3) 233 5871
Exchange rate	N Ilett (EF1) 233 4621

INTEREST RATES AND EXCHANGE RATES SINCE 31 DECEMBER 1984

Closing Rates	Exchange Rates: £ effective	Exchange Rates: £/$	Exchange Rates: DM/£	Short Term Interest Rates (per cent): UK Base Rate	Short Term Interest Rates (per cent): US Prime Rate	Short Term Interest Rates (per cent): 3 month £ inter-bank	Short Term Interest Rates (per cent): 3 month Eurodollar	Short Term Interest Rates (per cent): Uncovered Differ-ential	Long Term Interest Rates: UK 10 year Gilt	Long Term Interest Rates: US 10 year T-bond
						+++NB: In these three columns, numbers to the right of the point are sixteenths				
Mon 31 December	73.0	1.158	3.65	9½-9¾***	++10¾	10.01	8.10	+ 1.07	11.21	11.50
Fri 11 January (base rates up)	71.3	1.130	3.56	10½		10.13	8.08	+ 2.05	11.24	11.50
Mon 14 January (base rates up)	70.8	1.130	3.55	12	10½	12.02	8.09	+ 3.09	11.37	11.56
Mon 28 January (base rates up)	70.5	1.113	3.53	14		13.15	8.07	+ 5.08	11.71	11.13
Tues 26 February	70.2	1.042	3.61			14.02	9.05	+ 4.13	11.82	11.75
Wed 13 March	71.6	1.084	3.648			13.15	9.06	+ 4.09	11.50	11.73
Wed 20 March (base rates down)	74.0	1.138	3.722	13½		13.07	9.03	+ 4.04	11.51	11.94
Thu 28 March	77.5	1.225	3.832	13½-13*		13.04	9.03	+ 4.01	11.34	11.88
Fri 19 April (base rates down)	79.5	1.293	3.846	12¾-12½**		12.04	8.08	+ 3.12	11.03	11.13
Wed 12 June (cut by Barclays and NatWest)	79.2	1.264	3.901	12½	10 A	12.08	7.10	+ 4.14	11.14	10.06
Wed 3 July	81.3	1.312	3.979		9.5 AA	12.09	7.12	+ 4.13	11.03	10.03
Mon 15 July (base rates down)	83.2	1.389	4.003	12		12.00	7.12	+ 4.04	10.80	10.25
Mon 29 July (base rates down)	84.7	1.431	4.033	11½		11.06	8.03	+ 3.03	10.71	10.63
Fri 30 Aug	82.7	1.397	3.917			11.11	8.01	+ 3.10	10.63	10.13
Fri 6 Sep	81.0	1.333	3.889			11.12	8.04	+ 3.08	10.64	10.25
Fri 13 Sep	81.0	1.337	3.881			11.08	8.05	+ 3.03	10.84	10.56
Fri 20 Sep	82.0	1.367	3.906			11.08	8.03	+ 3.05	10.71	10.37
Fri 27 Sep	80.5	1.409	3.774			11.08	8.01	+ 3.07	10.49	10.18
Fri 4 Oct	79.6	1.417	3.711			11.08	8.02	+ 3.06	10.51	10.31
Fri 11 Oct	80.0	1.409	3.748			11.09	8.03	+ 3.06	10.52	10.31
Fri 18 Oct	80.6	1.428	3.762			11.09	8.02	+ 3.07	10.52	10.63
Fri 25 Oct	80.5	1.425	3.768			11.10	8.03	+ 3.07	10.51	10.13
Fri 1 Nov	80.4	1.437	3.753			11.11	8.01	+ 3.10	10.57	9.94
Fri 8 Nov										

+++ So for example 9.09 represents $9\frac{9}{16}$: 10.12 is $10\frac{3}{4}$ per cent etc

* Lloyds and Natwest 13 per cent

** Barclays and Midland 12¾ per cent

*** Base rates reduced 22 November

\+ ...elds prevailing at close on previous day

++ Prime rates reduced on 19 and 20 December from 11¼

A Prime rates reduced on 19 and 20 December from 10.5

AA Prime rates reduced 18 June from 10

D3 ALTERNATIVE POLICIES

[See also Fiscal policy 1985-86 to 1988-89 (Brief D1), Monetary and exchange rate developments and policy (D2), Capital/current spending and infrastructure (G5).]

Factual

(i) Labour/TUC - proposed no alternative Autumn Statement.

- most recent general economic policy pronouncement a joint document - 'A New Partnership, A New Britain', issued 6 August. Proposals included:

(a) a tripartite 'National Economic Summit' and a stronger NEDC;

(b) increased public sector investment;

(c) 'co-ordination' of companies' key decisions; improved workers' and trade union rights, increased planning;

(d) strengthened public enterprise;

(e) increased expenditure on R & D and training;

(f) a National Investment Bank, backed by (new-style) exchange controls based on removal of tax reliefs;

(g) attack on low pay.

Similar policies endorsed by Labour and TUC conferences.

(ii) SDP/Liberal parties published alternative Autumn Statement 'Facing the Jobs Challenge', 9 September (endorsed by both party conferences):

(a) £5 billion 'budgetary boost': including 1 per cent reduction in employers' NICs, £1 billion public investment (each year for 3 years), an expanded Community Programme, improved social security benefits and £1 billion on current expenditure;

(b) firm monetary policy;

(c) exchange rate should be cut and exchange rate instability reduced. UK should join Exchange Rate Mechanism of EMS "at the earliest opportunity at a rate that can be sustained";

(d) [undefined] incomes 'strategy' should be implemented;

(e) acknowledged forecast effects within two years, if package were implemented, would include inflation back to 7½ per cent and rising, balance of payments £5 billion in deficit and average earnings rising by 8.2 per cent. Unemployment forecast to fall by almost half a million.

(iii) CBI issued press notice on their Autumn Statement proposals on 28 October. Concerned that rate of growth slowing and unemployment unlikely to fall, called for a boost to the economy. Action plan included:

(a) fiscal and monetary policy must be made to accommodate higher rate of growth than currently envisaged for 1986. Interest rates should be reduced substantially, progressively and soon. Exchange rate should be cut and UK should join ERM of EMS.

(b) non-North Sea taxes should be cut progressively to 34½ per cent of GDP by 1988-89 and lower still thereafter. Tax cuts should not be funded by nationalised industry price increases;

(c) employers' NICs should be cut by 1 or 2 per cent a year;

(d) extra £1 billion a year to be spent for 10 years from 1986 on "cost effective infrastructure projects" financed by savings on current spending;

(e) more spending on employment schemes.

CBI forecast inflation will fall to 5½ per cent by end-1985 and 3½ per cent by mid-1986. Claim growth could rise another 1 per cent in 1986, to around 3 per cent, without fuelling inflation. CBI report published 4 November forecast unemployment could fall to 1 million over next 25 years, if UK trade performance improved.

CBI's Report 'Fabric of the Nation II' (published 8 November): recommendations mostly familiar from previous CBI reports. Consistent with Autumn Statement representations but focuses on need for greater infrastructure spending, especially on roads.

Positive

(i) Reduction in inflation so far secured has depended critically on maintaining firm fiscal and monetary stance. Calls for relaxation would jeopardise present achievements and future prospects, as SDP/Liberal forecast acknowledges.

(ii) Welcome CBI's forecast of 3½ per cent inflation by mid-1986, broadly in line with Government's own. Growth can indeed rise to 3 per cent in 1986 without jeopardising inflation, as Industry Act forecast reveals.

(iii) Government makes every effort to find room for worthwhile projects within expenditure plans. Record on infrastructure good. (See G5)

(iv) CBI state explicitly their call for £1 billion extra annual spending on infrastructure must be financed from savings on current expenditure.

(v) New plans imply some increases in capital spending above previous plans (few details until Public Expenditure White Paper published. Government taken into account NEDC discussions on infrastructure (see G5).

(vi) Many of Labour/TUC and SDP/Liberal proposals would create distortions and rigidities in economy, damaging prospects for jobs and growth.

Defensive

(i) Government already acted on employers' costs to promote employment:

- abolished National Insurance Surcharge (3½ per cent in 1979): would have yielded £3½ billion from private sector in 1985-86 if it had stayed at 1979 level.

- 1985 Budget restructuring of NICs encouraged employment of young and unskilled especially and increased workers' incentives to take on jobs at wages employers could afford.

- companies agreeing excessive pay settlements cannot expect rest of nation to come to rescue, via subsidies for pay increases or cuts in interest rates which jeopardise control of inflation.

- CBI themselves declare in latest Survey "It appears that companies are learning to live with high rates of interest."

(ii) Government keeps question of joining ERM under continuous review.

(iii) Spending plans allow for further expansion of Enterprise Allowance Scheme in addition to Budget's substantial increases in expenditure on Youth Training Scheme and Community Programme. (See also H9)

(iv) Government shares CBI's concern to reduce burden of taxation. 1984 Green Paper on long-term trends in public expenditure and taxation showed, on certain assumptions, burden of non-North Sea tax could be down to 35½ per cent by 1988-89. But progress depends on overall rate of growth of economy and maintaining firm control of public expenditure.

Contact point: C R Pickering (EB) 233 5503

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E1 NATIONAL INSURANCE CONTRIBUTIONS

Detailed questions to DHSS

Details to be given by Secretary of State for Social Services in Written Answer on 12 November, when necessary (affirmative) Order and (negative) regulation laid along with report by Government Actuary showing effect of changes on National Insurance Fund. DHSS issuing Press Notice on 12 November.

[See also Industry Act forecast (B3), Labour market (Brief B6), Public expenditure 1986-87 to 1988-89 (G2), Employment (H9), Social Security (H21)]

Factual

(i) Social Security Act 1975 requires Secretary of State for Social Services to review National Insurance contribution rates and limits annually. Main decisions for 1986-87 given in Chancellor's oral statement, repeated in Part 3 of published Autumn Statement.

(ii) Main announcements

(a) Lower Earnings Limit (LEL) to increase by 7 per cent from £35.50 a week to £38 in line with single rate retirement pension. (Relationship between LEL and pensions, and rounding rules, set by statute.)

(b) Upper Earnings Limit (UEL) to rise correspondingly from £265 a week to £285. (Actual increase 7.5 per cent because UEL conventionally rounded to £5.) £285 is maximum permissible within statutory rule that UEL must not exceed 7½ times LEL.

(c) Class 1 rates for employed persons to remain unchanged, including new reduced rates announced in Budget which took effect from 6 October 1985 (see (d) below).

(d) Limits for reduced rate bands also to be uprated by similar percentage as LEL and UEL (7 per cent, rounded to £5), giving 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

(e) For changes to self employed Class 2 and 4 contributions and profit limits, and Class 3 voluntary contributions, see Table at Annex.

(f) No cut in Treasury Supplement. Stays at 9 per cent.

(iii) 1985 Benefit uprating: See H21.

(iv) Government Actuary's (GA's) Report

(1) Economic assumptions - not forecasts - published in GAD report:

(a) numbers of claimant unemployed (GB excluding school leavers etc) averages 3.05 million in 1985-86 and 3 million in 1986-87. (3 million also used for 1987-88 and 1988-89 for Social Security programme. Figures in Part 3 of Autumn Statement.) (See also G2);

(b) increase in average earnings to decline from about 8 per cent between financial years 1984-85 and 1985-86 to about 7 per cent between financial years 1985-86 and 1986-87;

(c) annual uprating of benefits due in November 1986 to be brought forward to July 1986, in line with proposals in Green Paper "Reform of Social Security" (Cmnd 9517). Uprating to be based on increase in RPI in 8 months to January 1986. January RPI assumed to be 5½ per cent higher than year earlier, in line with published forecast for 1985Q4 (Table 1.5 of Autumn Statement). Implies 1 per cent uprating. (See also G2, H21)

(2) Report shows projected annual deficit (ie shortfall of income over expenditure) in 1986-87 of £50 million, taking cumulative balance to £4,785 million or 20 per cent of annual benefit expenditure. Minimum balance recommended by GA: one-sixth or 16 per cent of benefit expenditure.

(v) Employer's burden (See Table 3.1 of Autumn Statement): Burden on employers expected to be almost £700 million (6 per cent) higher than in 1985-86. But increases solely due to higher earnings and employment. Full year effect of 1985 Budget NIC changes and changes in earnings limits reduce burden by over £200 million compared with 1985-86. (£50 million for Budget NIC changes; £160 million for increase in earnings limits.)

(vi) Employees' burden (See Table 3.1 of Autumn Statement): Changes mean maximum increase in employees' payments of £1.80 a week (for those whose earnings put them at or above new UEL). Most pay little or no more. Some pay less because of increases in limits. Full year effect of 1985 Budget NIC changes worth £170 million to lower paid, compared with 1985-86.

(vii) International comparisons

Employer social security contributions as percentage of GDP

	1972	1977	1982
Belgium	8.3	9.6	8.8
Canada	2.0	2.6	2.7
France	10.8	13.1	14.3
Germany	6.8	8.2	8.7
Italy	9.5	11.3	10.5
Japan	2.7	3.8	4.5
Netherlands	8.7	9.9	10.0
Sweden	6.3	13.8	15.1
Switzerland	2.1	3.2	3.3
United Kingdom	3.0	4.4	4.0
United States	2.8	3.4	3.8

For 11 countries for which data available, UK is eighth in ranking. UK contributions as percentage of GDP even less than in Japan.

Positive

(i) No increase in Class 1 contribution rates for third year running. Main Class 1 rates same as introduced in April 1983, despite continuing increase in benefit expenditure.

(ii) Reduced rates for lower paid introduced in 1985 Budget. Took effect on 6 October. Value of these reduced rate bands to low paid to be maintained by uprating earnings limits broadly in line with LEL and UEL. Benefit of reduced rates will extend further up earnings scale.

(iii) Most employees pay little or no more as result of these changes. Many employees and employers will pay less because of increase in ceilings for reduced rates. Only those with earnings above £265 a week (well above average earnings) pay noticeably more because of increases in UEL; and for them maximum weekly increase is only £1.80. Increase in UEL roughly in line with assumed rise in earnings between 1985-86 and 1986-87.

(iv) No cut in Treasury Supplement.

Defensive

(i) Why not cut rates when cumulative balance well above level recommended by Government Actuary? One-sixth of benefit expenditure recommended by GA as prudential minimum, not target or optimum level. Cut in rates would put Fund into substantial annual deficit.

(ii) Increase in employers' burden: All of increase due to rises in earnings and employment. Full year effect of Budget NIC changes and changes in earnings limits actually reduce burden on employers by over £200 million compared with 1985-86.

(iii) Employers' rate should have been cut to help jobs (CBI urging annual one or two per cent reduction) 1985 Budget NIC changes, which took effect from 6 October 1985, reduced employers' costs at lower end of wage scale by £880 million in full year. Outside estimates of number of jobs created range as high as 400,000. Uprating of band limits maintains value of reduced rates for low paid. National Insurance Surcharge (3½ per cent in 1979) would have yielded £3½ billion from private sector in 1985-86 if it had stayed at 1979 level. But key to reduced costs lies in moderation on pay. If companies agree excessive settlements, cannot expect taxpayer to bail them out.

(iv) LEL should be raised further to help jobs. LEL set at level required by legislation (Social Security Act 1975) ie equal to single rate retirement pension, rounded down. Must not fall into trap of thinking of NICs as crude payroll tax like NIS. Contributions earn entitlement to benefit: raising LEL excludes low paid from State pension and other NI benefits. LEL and UEL integral part of SERPS benefit calculation so no change possible at present. Must wait until Social Security Review completed before contemplating any radical changes to earnings limits.

(v) LEL should be changed into threshold: 1985 Budget NIC changes provide far more cost-effective help to low paid. Full year cost of restructuring employers' and employees' contributions £350 million. Changing LEL into threshold would have cost some £6½ billion.

(vi) UEL should have been increased further or abolished. UEL set at maximum permitted within existing legislation. Abolishing UEL would mean unacceptable marginal rates for high earners. Chancellor made Government's position on this clear in 1985 Budget Speech. (See also (iv) above)

(vii) UEL should not have been increased. Would mean that better-off did not pay fair share of benefit expenditure.

(viii) Budget NIC changes added to, rather than reduced, industry's costs. Always hear from those who claim to lose from any measure, not from those who benefit. Revenue raised by abolishing UEL for employers' contributions (£800 million in full year) less than cost of introducing reduced rate bands (£880 million in full year). So private sector gained overall. Full year effect reduces net burden on employers by £50 million compared with 1985-86 ceilings on reducd rate contributions (see Table 3.1 of Autumn Statement). Effect of increase in LEL and other earnings limits is to reduce employers' burden by £160 million.

(ix) July 1986 benefit uprating only 1 per cent: 1 per cent no more than working assumption. Uprating will reflect full, measured increase in prices between May 1985 (basis for November 1985 uprating) and January 1986, whatever that proves to be. (See also H21)

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(x) Government still forecasting 3 million unemployed in 1986-87. GA's report makes assumption about future unemployment levels, not forecast. Government, by long-established practice, has never published forecasts of unemployment. (See also B3).

(xi) GA's assumed decline in earning too gradual. Again, assumption not forecast. But Government has repeatedly stressed that the lower the level of pay settlements, the more new jobs.

(xii) Self employed flat rate Class 2 contribution going up, when only just been reduced. (Class 2 rate was reduced from £4.75 a week to £3.50 from 6 October as part of 1985 Budget NIC changes. Now to rise to £3.75 from April 1986.) Perfectly routine to put up Class 2 contribution in April when Class 1 changes made. Long-standing actuarial formula for calculating self employed contributions would imply Class 2 rate should be going up to £5.40 a week. Class 2 rate still less than total employer plus employee Class 1 contribution at LEL (£3.80 from April).

(xiii) Self employed should get tax relief on Class 2 contributions. (50 per cent tax relief given on Class 4 earnings-related contributions in 1985 Budget.) Class 2 rate will be £1.65 a week or 30 per cent below actuarially correct rate. Discount worth far more to low earners than 50 per cent tax relief. 1985 Budget NIC changes worth £100 million in full year to self employed.

NB Not for use until after 4.30pm on 13 November.

(xiv) Cut in redundancy rebate should have meant cut in NIC rate. Rebates will be paid for most of 1986-87 so no immediate change warranted for that year. For later years, decisions on changes in NIC rate will take full account of abolition of redundancy rebates and any consequent change in Employment Protection Allocation. But only one of number of factors. (See also H9)

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E1 Annex.

NI CONTRIBUTION RATES 1986-87

Summary of proposals

	Present 1985-86	Proposed 1986-87	Change
Employer's class 1 (contracted-in)	10.45%	10.45%	-
Employee's class 1 (contracted-in)	9%	9%	-
Opted-out married women	3.85%	3.85%	-
Lower Earnings Limit (Class 1)	£35.50	£38	+£ 2.50
Upper Earnings Limit (Class 1)	£265	£285	+£20
Low-paid earnings brackets	(£ 55 (£ 90 (£ 130	(£60 (£95 (£140	(+£5 (+£5 (+£10
Rates payable within low-paid brackets	(5% (7% (9%	(5 % (7% (9%	- - -
Class 2 (self-employed)	£3.50	£3.75	+ 25p
Small earnings exception	£ 1,925	£2,075	+£150
Class 3 (voluntary)	£3.40	£3.65	+ 25p
Class 4 (self-employed, profits-related)	6.3%	6.3%	-
Lower profits limit (Class 4)	£ 4,150	£ 4,450	+£300
Upper profits limit (Class 4)	£13,780	£14,820	+£1,040

No change is proposed in the rates of employment protection allocation or of NHS contribution.

Note: Contracting-out rebates are not due for change until end of the 1983-88 quinquennium; they therefore remain at 4.1% employer, 2.15% employee (ie 6.25% joint).

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E2 SOCIAL SECURITY REVIEW

Detailed questions to DHSS

[See also Social Security (Brief H21)]

[NB Nothing to be said which could prejudice outcome of Social Security White Paper. General line to take is that precise details of reviews still under consideration and decisions will be announced later. Consult ST1 or DHSS if in doubt.]

Factual

(i) Review began in November 1983 with Inquiry into Provision for Retirement.

(ii) 3 other separate enquiries (supplementary benefit, housing benefit, benefits for children and young people).

(iii) Unprecedented involvement of groups outside Government (advising Ministers, public hearings, written evidence).

(iv) Green Paper "Reform of Social Security" (Cmnd 9517) published 3 June.

(v) Public debate continued with massive response to consultation, now ended.

(vi) Next stage - White Paper to be published shortly, followed by legislation.

Positive

(i) Everyone agrees social security system needs reform.

(ii) Green Paper proposals designed to

- make system simpler for claimants and staff;
- enable people to have their own pension provision in partnership with basic state pension;
- concentrate resources on those most in need;
- put social security finances on sound basis.

Defensive

(i) Review is just excuse for cuts. Not so, but any Government must look critically at how over £40 billion of taxpayers' money is spent.

(ii) Should have published figures in Green Paper. Green Paper was about structure. Illustrative figures - on range of assumptions - will follow when decisions have been taken and White Paper is published. Published figures will reflect decisions about structure arrived at only after period of consultation.

(iii) Proposals should be put to electorate. Has been unprecedented public debate about social security, prompted by Government's review. Government has responsibility to look critically at all areas of public spending and introduce reforms where needed. Reforms too important to delay indefinitely.

(iv) Proposal to abolish SERPS abandons consensus. No. Review showed more needed to be done to enable people to have own pensions. Government already acted (Social Security Act 1985) to make it easier for people to take pension when moving job. Green Paper proposals went further by offering everyone chance to have pension through employer. Extending occupational and personal pension provision remains Government's objective. (Too soon to say what final proposals will be.)

(v) Delay in decisions on Review: White Paper to be published shortly. Will contain decisions taken in light of consultation. Legislation will follow.

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F1 TAX READY RECKONER

Factual

(i) Part 4 of Autumn Statement gives 1986-87 levels of allowances, thresholds and bands following indexation by illustrative 5½ per cent, direct revenue 'cost' of this indexation and revenue gains from revalorisation of excise duties by 5½ per cent.

(ii) Also contains 'ready reckoner' for changes in income tax, corporation tax and indirect taxes at forecast 1986-87 price and income levels which are consistent with Part 1 of Autumn Statement.

Limitations and pitfalls

(i) Changes to income tax are over and above indexed levels of allowances etc; those for excise duties are from current (unrevalorised) level of duties.

(ii) Income tax changes are costed in isolation; this should be recognised in estimating costs or yields of interacting changes and packages eg revenue effect of change in an income tax rate depends on level of allowances, thresholds etc assumed.

(iii) Revenue effects of income tax changes generally linear over a range and can be pro-rated (though cost of increasing higher rate thresholds is less linear).

(iv) Within limits, revenue effects of changes to indirect taxes can also be scaled up or down. But large increases may result in later units of duty raising less than previous units.

Positive

(i) Ready-reckoner gives estimates for direct effect on revenue in next financial year. (Before publication of Autumn Statements, estimates were given for current year only.)

(ii) Helpful to those making Budget representations or those who wish to cost tax packages.

Defensive

(i) Why no PSBR costs given? Total effect of a tax change on the PSBR will depend on how the economy responds - which is highly uncertain - and also on what is assumed about monetary policy. Direct revenue effects do not require such assumptions. [If pressed: PSBR costs in 1986-87 would generally be close to first year costs (usually a bit lower).]

(ii) Why are some increases in allowances etc more than 5½ per cent? Because rules for rounding up in 1980 and 1982 Finance Acts (which have been applied here) mean some increases rounded up by quite large amounts.

(iii) Why are first-year revenues less than full-year revenue for some taxes? Occurs when receipts differ from accruals of a tax, eg through lags in collecting income tax, especially higher rate tax, through collection of VAT 3 months in arrears and deferment of duties (beer, tobacco, wine, spirits, petrol and derv duties are paid in arrears, so that higher rate of duty is not reflected in receipts until about 1 month later).

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(iv) Indexation percentage likely to be wrong. Indexation provisions in 1980 and 1982 Finance Acts are based on inflation in 12 months to December: precise increase for 1986-87 will not be known until December 1985 RPI is available. Illustrative figure of 5½ per cent consistent with our expectations for inflation over remainder of 1985.

(v) Why have costs of indexation in Table 4.4 of published Autumn Statement increased so much compared with 1984 Autumn Statement? Higher indexation percentage of 5½ per cent is used, rather than 4¾ per cent used last year; rest of increase is attributable to growth in earnings and employment.

(vi) Why has the effect of a 1 per cent change in the Corporation Tax rate increased so much compared with last Autumn Statement? Pre-tax profits are forecast to be higher. 1984 Finance Act has also widened tax-base by restructuring capital allowances and abolishing stock relief.

(vii) Corporation Tax rates already announced for 1986-87: why include CT in ready-reckoner at all? It is a general table designed to allow informed discussion on wide range of policy changes.

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F2 GREEN PAPER ON PERSONAL TAX REFORM

Factual

(i) Budget speech trailed transferable allowances for married couples - promised Green Paper "later this year" and mentioned possibility of legislation in 1987.

(ii) Proposal is that each individual should have same tax allowance to replace present single/married man's/age allowance. Any unused part of tax allowance could be transferred between husband and wife.

(iii) Chancellor's speech to Equipment Leasing Association on 28 May mentioned transferable allowances and said Green Paper would also discuss NICIT and integration of tax and benefits.

(iv) Chancellor's speech to Conservative Party Conference said proposals which would be set out in Green Paper would enable Government to "do far more to deal with unemployment and poverty traps which damage incentives for those on low incomes.... they will also once and for all remove the discrimination against married women which so disfigures our present tax system".

Positive

(i) Transferable allowances will end relative tax discrimination against one-earner couples.

(ii) More than half of people in unemployment and poverty traps are in this category; hence change will be of particular benefit in dealing with traps.

(iii) Single tax allowance is simple in concept and - with transferability - fair in practice.

(iv) Proposals will provide independence and privacy for married women in tax matters.

Defensive

(i) Date of publication: Not yet decided. Chancellor said "later this year" in Budget Speech. [If pressed: "this year" could refer either to 1985 or 1985-86.]

(ii) Green Paper will discuss issues involved in NICIT/integration of tax and benefits. Not commitment to bring forward proposals. Balance of argument will not necessarily justify this.

(iii) Not true that transferable allowances would discriminate against working married women. Would merely correct present distortion in system which discriminates in favour of two-earner couples.

(iv) Child tax allowances another way of helping those caught in poverty and unemployment traps. But if substitute for Child Benefit, would do nothing for those below tax threshold. If run in parallel with Child Benefit, would be complicated. Child tax allowances would not have other benefits of transferable allowances - would do nothing for privacy and independence of women.

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G1 PUBLIC EXPENDITURE IN 1985-86

[See also Fiscal policy (Brief D1), Public expenditure 1986-87 to 1988-89 (G2), Departmental running costs (G4), specific expenditure briefs in Section H]

Factual

(i) Estimated outturn for planning total is £134.2 billion, as in FSBR.

(ii) Prospective planning total outturn implies Reserve of £5 billion ie plans will be fully spent. Main claims are for non-discretionary items ie expenditure over which Government has no direct control. Include overspends by local authorities on current and capital account (nearly £2 billion), increases of nearly £2 billion in central government non-cash limited expenditure (eg social security, IBAP, ECGD) and post-coal strike costs (nearly £1¼ billion). Some other smaller claims and offsetting underspends.

(iii) Figures above take into account claims on Reserve arising from Summer and Winter Supplementary Estimates (£0.35 billion and £1.15 billion respectively) and best estimates of outturn to date and prospects for rest of year.

(iv) Estimated outturn for Supply expenditure in first six months of 1985-86, published in Summary of Winter Supplementaries ("Financial Secretary's Note") on 12 November, is £47.4 billion, broadly in line with original profile of £47.3 billion. (Profiles do not take account of Winter Supplementaries. Had they done so, expenditure would be below profile.)

(v) In line with request from Treasury and Civil Service Committee following last year's Autumn Statement, departmental breakdown of 1985-86 planning total outturn published for first time this year (AS Table 2.2). Main overspending by D/Energy, DHSS, DES, DOE and IBAP; these overspends correspond chiefly to increases on non-cash limited programmes (eg social security, IBAP), local authority overshoots (eg schools expenditure) and coal strike related increases in nationalised industries' external finance requirements (eg electricity and coal).

(vi) Public expenditure cost of coal strike in 1985-86 is estimated at nearly £1¼ billion against £2½ billion in 1984-85 (see also H7).

(vii) General government expenditure in 1985-86 forecast at £158 billion, compared to £159½ billion in FSBR (see also D1).

Positive

(i) Forecast outturn in line with plans. As forecast at time of Budget, plans are proving realistic and adequate. But outturn is still uncertain.

(ii) Government delivering plans successfully despite exceptional and costly coal strike which has put strain on public expenditure for second successive year.

(iii) As percentage of GDP, general government expenditure is falling steadily, from peak in 1982-83 (46½ per cent) to 45½ per cent in 1984-85 and prospective 44½ per cent in 1985-86 (see AS Table 2.1 and Brief G2).

(iv) Improvements being sought continuously in forecasting, monitoring and control. Important developments include introduction of departmental running costs limits next year (see G4) and review of local authority capital control arrangements.

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Defensive

(i) Reserve already exhausted - no room for further contingencies. Figures in AS Table 2.2 show best view of outturn for 1985-86. Does not imply that Reserve fully spent at this stage of year. Make allowance for contingencies.

(ii) Potential threat to planning total requires action now. Important to avoid exceeding Reserve. But expect it to be adequate.

(iii) Local authority (LA) overspend: LA **capital** control system already under review because of overspending problems. For LA **current** expenditure, Government introduced rate-capping from 1985-86 (18 authorities in current year). Targets and holdback this year will withdraw Rate Support Grant (RSG) sharply from overspending authorities. No targets next year, but much stronger pressures against overspending from normal RSG arrangements. Important for LA employers to exercise pay moderation to keep within plans. (See also H26)

(iv) Access to Reserve for excess central government pay. Where central government pay costs are above allowance in plans, being met from within cash limits. Presumption against recourse to the Reserve. (None made 1984-85 or 1985-86 for civil service pay increases.)

(v) Details of departmental overspends: See separate briefs in Section H series. Detailed questions to departments.

(vi) Rounding of outturn in Table 2.2: All outturn figures rounded, larger figures and total to nearest £100 million (see footnotes to Table 2.2). More precise figures at this stage would be spuriously accurate. Outturn for total expected to be same as in plans. [NB Totals in Tables 2.2A-C do not add across to totals in Table 2.2 because of double counting of expenditure that is both LA relevant current and nationalised industries' external finance. See footnotes to Tables 2.2A and B.]

(vii) Treasury acceptance of departments' views: No net difference between Treasury's overall view of outturn and constituent figures supplied by departments (some small differences in individual cases but net to zero).

(viii) General government expenditure (GGE) lower than in FSBR [not explictly shown in published Autumn Statement, but easily calculated]. Difference of £1½ billion mainly explained by lower central government lending to public corporations (PCs) than expected at Budget time, matched by higher PCs' borrowing from market (see D1). For difference between GGE and planning total, see AS Table 1.9 (and D1). Not appropriate to include interest costs on government debt in planning total because latter is a control total. Fluctuation shows that GGE would be inappropriate control total.

(ix) 1984-85 outturn: Cash limit system continues to be very successful with only 3 breaches of voted cash limits (PSA breach of £12 million only one of any significance) in 1984-85. Provisional outturn for 1984-85 was £129.7 billion, same as in FSBR.

(x) Questions about 1986-87 and beyond: See G2.

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G2 PUBLIC EXPENDITURE 1986-87 TO 1988-89

Detailed questions on programmes should be addressed to individual departments.

[See also Employment and unemployment (Brief B6), Fiscal policy (D1), Social Security Review (E2), other briefs in section G, specific expenditure briefs in Section H]

Factual

(i) Plans for 1986-87 and 1987-88 have been held to £139.1 billion and £143.9 billion respectively, in line with totals published at Budget time in FSBR. (For classification change in 1986-87, see Defensive (iv).)

(ii) Plans for 1988-89 set at £148.7 billion.

(iii) Allowing for inflation, planning total broadly constant at lower level than 1984-85:

£ billion 1984-85 real terms

	1978-79 outturn	1984-85 outturn	1985-86 estimated outturn	1986-87 plan	1987-88 plan	1988-89 plan
Planning total	117.4	129.7	127.8	126.8	126.7	127.1

Figures for intermediate years given in Table 2.1 of Autumn Statement.

(iv) If privatisation receipts excluded from planning total, figures broadly constant in real terms at 1984-85 level:

£ billion 1984-85 real terms

	1978-79 outturn	1984-85 outturn	1985-86 estimated outturn	1986-87 plan	1987-88 plan	1988-89 plan
Planning total (excluding privatisation receipts)	117.4	131.8	130.2	131.1	130.9	131.2

Figures for intermediate years given in Table 2.4 of Autumn Statement.

(v) Plans imply public expenditure as percentage of GDP continues to fall from peak reached in 1982-83 (46½ for general government expenditure (GGE), 47 for GGE excluding privatisation receipts):

	1978-79	1984-85	1985-86	1986-87	1987-88	1988-89
GGE as % GDP	43	45½	44½	43	41½	41
GGE excluding privatisation receipts as % of GDP	43	46	45	44	43	42

Figures for intermediate years given in Tables 2.1 and 2.4 of Autumn Statement.

(vi) Reserves put at £4½ billion, £6¼ billion and £8 billion in three years 1986-87 to 1988-89. Substantially higher and more sharply wedged than in previous Public Expenditure White Papers.

(vii) Increased privatisation proceeds and normal process of rolling forward (and reducing) Reserves offset by increases in programmes. Main changes in departmental plans compared with Cmnd 9428 adjusted for Budget measures are:

	1986-87		1987-88	
	£ million	%	£ million	%
Social Security	+1.250	+3.0	+740	+1.7
Health	+310	+1.8	+330	+1.8
Education	+300	+2.1	+170	+1.2
IBAP	+270	+21.1	+340	+26.2
Housing	+220	+8.7	+200	+7.6
Employment				
(i) Since Budget	-70	-1.8	-210	-5.2
(ii) Since Cmnd 9428	+570	+17.9	+590	+18.3

(viii) Plans announced are now firm. Precise figuring may change slightly before publication of Public Expenditure White Paper (PEWP) as result of more detailed calculations (eg territorial consequences) and changed forecasts.

(ix) Economic assumptions are:

	1985-86	1986-87	1987-88	1988-89 million
Unemployment (GB narrow)(1)	3.05	3.0	3.0	3.0
GDP deflators (financial year on financial year)2				per cent
	5	4½	3½	3

(1) See AS paragraph 3.02
(2) See AS paragraph Table 2.1, footnote 2

Social security uprating:

- November 1985 uprating based on actual 7 per cent increase in RPI in year to May 1985.

- Benefit numbers in Part 2 of Autumn Statement (paragraph 2.29) assume

  (a) July 1986 uprating based on 1 per cent rise in RPI from May 1985 to January 1986;

  (b) April 1987 uprating based on 2¼ per cent increase in RPI from January 1986 to September 1986;

  (c) April 1988 uprating based on 3¼ per cent increase in RPI in year to September 1987.

(x) Public Expenditure White Paper will be published in January 1986.

Positive

(i) Projected fall in public spending as proportion of national output puts ratio by 1988-89 (41) at lowest level since 1972-73 (40½). Was 43 in 1978-79.

(ii) Planning totals for 1986-87 and 1987-88 held in line with cash figures announced in FSBR.

(iii) Planning totals rising at about same rate as inflation and so stable in real terms, including new year 1988-89. Benefits of economic growth available to private sector.

(iv) Success in keeping spending down should create room for tax cuts, depending on overall growth of economy.

(v) Increases in programmes additional to Budget measures to expand Youth Training Scheme and Community Programme. Effects of these measures only now beginning to come through (see B5).

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G2

Defensive

(i) 1986-87 Reserve of £4½ billion inadequate, bearing in mind £2 billion increase in Reserves considered necessary in 1985 FSBR and given expected full use of £5 billion in 1985-86.

(a) Big Reserves in 1985 FSBR reflected particular circumstances of time: evident following coal strike and with inflation blip in prospect that provision in programmes was inadequate. Given continuing uncertainties at Budget time, not feasible at that stage to make new allocations to programmes, so additions made to Reserves. £5 billion figure did not represent judgment about normal size of first year Reserve.

(b) Position now quite different. Comprehensive review during 1985 Survey of 1986-87 programme allocations and revised programme figures in Autumn Statement now realistic.

(c) Remaining £4½ billion Reserve fully adequate. Every effort made to ensure provision for demand-led spending realistic eg IBAP, ECGD (see H5, H8). Improvements in control mechanisms in prospect (eg LA capital). Stronger RSG arrangements will exert pressure on LA current overspending (see H26). Post coal strike costs now receding.

(ii) 1987-88 and 1988-89 Reserves inadequate eg given patent unrealism of LA current expenditure figures. Autumn Statement makes clear LA current figures are unchanged in cash terms in later years. But allowance made for this in setting Reserves. (See H26) Reserves at record levels for years 2 and 3 - even higher than in FSBR - and with bigger steps in profile between years.

(iii) Figures look fudged and uncertain eg social security in later years, coal. Inevitable uncertainties about some of component figures. But revised plans are realistic and make ample margin for uncertainty in big Reserves.

(iv) FSBR planning total for 1986-87 was £139.0 billion. Why now £139.1 billion? Minor changes in allocation and classification. On present basis, FSBR figure equivalent to £139.1 billion, as shown in Table 2.2 of Autumn Statement.

(v) 1988-89 planning total was £148 billion in MTFS. Why £148.7 billion now? MTFS figure in 1985 FSBR was rounded assumption (see footnote to Table 2.2 of FSBR). £148.7 billion is first plan figure published for 1988-89. Implies public spending continues broadly constant in real terms and falling as proportion of GDP.

(vi) "Broadly constant" claim only true because of coal strike - deduct effect of that, as well as privatisation proceeds and real terms figures rise. Even on that basis total real terms increase over 4 years 1984-85 to 1988-89 only 1½ per cent and strong downward trend in public spending/GDP ratio not affected.

(vii) Privatisation programme expanded to pay for higher spending. Even when privatisation receipts excluded, public expenditure flat in real terms and falls as percentage of GDP. Increase in privatisation programme justified on merits. Major plank in Government's policy, pursued consistently since 1979, of rolling back boundaries of public sector and promoting wider participation in ownership of British industry. Programme now gathering momentum and will run well beyond this Parliament. Will generate long term economic benefits as well as benefits from wider share ownership. Programme manifestly popular and successful. (See also D1, G3)

(viii) Sales of council houses, New Town assets, surplus land and empty housing increased to pay for higher current spending. No. Wider reasons for accelerating disposals eg Government policy to encourage wider home ownership; released surplus land can be put to good use by private sector. (See H15)

(ix) Where are cuts? Nearly all programmes have gone up. Survey not about cuts - about reallocating within unchanged totals. Quite normal to allocate from Reserves as rolled forward. Within programmes, many Ministers have reordered priorities eg less housing new build and more renovation, and economies within Health and Social Security.

(x) Why no increase in public spending? Have found room for significant increases for priority programmes. With public spending flat in real terms, will fall as percentage of GDP as economy grows. That creates room for tax cuts, reducing burden on private sector and improving incentives.

(xi) Effect of revised plans on nationalised industry prices: True that forecast to rise faster than total RPI over year to 1986Q4 but as AS Table 1.4 shows, forecast to rise slower than total RPI over year to 1985Q4 and also rose slower in year to 1984Q4. Over 3 years taken together, total rise in nationalised industry prices expected to be same as total rise in prices in general. (See H25)

Per cent

	NI prices	Total RPI
Year to 1984Q4	4	4 ¾
Year to 1985Q4*	5	5 ½
Year to 1986Q4*	5	3 ¾

* forecast

(xii) Do plans take account of higher costs, NICs etc following abolition of SERPS announced in Green Paper "Reform of Social Security"? No. Final decisions have yet to be taken, so costs for individual departments not known. Will be considered in 1986 Survey. (See also E2)

(xiii) Capital/current split: Too early to give precise figures. In particular, no figures for nationalised industries' investment yet available. But significant increases for roads and housing renovation. Figures will be published in PEWP in January. (See also G5)

(xiv) Departmental running costs: Special attention given to running costs in Survey. Final details still being sorted out but figures will be in PEWP. (See also G4)

(xv) What do ratios of general government expenditure to GDP imply for debt interest? Forecast of debt interest about same as in Budget forecast.

(xvi) Using general government expenditure to calculate public spending as percentage of GDP (rather than planning total plus net debt interest) means figure is 2-4 percentage points higher than in Cmnd 9428 and FSBR. Main reason is that GGE includes gross debt interest. Previous definition using net debt interest was less easy to relate to other statistics than GGE.

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G3 PRIVATISATION

[See also Fiscal policy (Brief D1), Nationalised industries (H23)]

NB: **Cable and Wireless sale**

Legal restrictions on what vendors may say in the run-up to the sale of the remaining Government shares mean that nothing should be said which could be interpreted as an inducement or recommendation to buy.

Factual

(i) Outturns and forecast of privatisation proceeds treated as special sales of assets

£ million

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Outturns:	370	405	494	488	1,142	2,091 (+91)

	1985-86	1986-87	1987-88	1988-89
Plans:	2,500*	4,750 (+2,500)	4,750 (+2,500)	4,750

* Cmnd 9428 planned figure

Changes from Cmnd 9428 in brackets

(ii)

Future candidates	State of play
Cable and Wireless (residual 23 per cent)	Intention to make joint offer with C&W before end of 1985, subject to market conditions.
British Airways	Aim to sell as soon as possible in 1986-87.
Royal Ordnance	Subject to usual caveats of trading performance and stock market conditions, would hope for privatisation in mid-1986.
British Gas	Legislation to be introduced shortly, enabling sale sometime in 1986.
British Airports Authority	Legislation to be introduced shortly enabling sale, probably in 1987.
Rolls Royce	Intention to sell during life of this Parliament.
BL	Privatisation of most of BL expected by stages within this Parliament.
British Steel	Scope for introducing private capital under continuous review. Focus remains on selling non-mainstream activities.

National Bus	Legislation now in place. Method of sale still to be decided. First sales of subsidiaries possible in 1986-87.
Water Authorities (England and Wales)	Feasibility being examined. Decisions expected shortly.

(iii) Main privatisation measures NOT included as special sales of assets

Sales of council houses	: Receipts of over £5 billion from sales of over 873,000 council houses in GB up to mid-1985, since May 1979.
Sales of subsidiaries by nationalised industries (and BL)	: Receipts of over £½ billion so far. Major sales include Jaguar (by BL), International Aeradio (by BA) and Sealink (by BR).

Positive

(i) Increase in forecast receipts: Increases of £2½ billion in 1986-87 and 1987-88 demonstration of confidence in continuing success of privatisation policy.

(ii) Achievements: 12 major businesses privatised, transferring 400,000 employees to private sector. Proceeds of £7 billion. (If council houses and other asset sales added, total proceeds around £12½ billion.)

(iii) Future plans: Further important sales planned, notably British Gas, British Airways and British Airports Authority. By end of this Parliament, size of State commercial sector should have been cut by 40 per cent since 1979.

(iv) Benefits of privatisation

(a) Increased efficiency, whether through competition or in other ways. Good for consumers and for economy as whole;

(b) Access to capital markets - funding available for good projects but also discipline against poor performance;

(c) More freedom from political and bureaucratic interference;

(d) More incentives for management and employees generally, from stronger connection between performance and reward eg through direct shareholdings - over 300,000 employees have bought shares in their privatised companies.

(v) Wider share ownership: Along with schemes to promote employee shareholdings, privatisation programme has probably doubled number of individual shareholders in UK - from around 1¾ million to roughly 3 million. Direct ownership by individual employees and investors generally is genuine public ownership, in contrast to ownership by State.

Defensive

(i) Privatisation programme being expended to finance tax cuts. Higher figures reflect increasing momentum of privatisation programme (notably decision to sell British Gas) which will run well beyond this Parliament. In line with Government's policy, pursued consistently since 1979, of rolling back boundaries of public sector and promoting wider participation in ownership of British industry. Programme will generate long-term economic benefits as well as encouraging wider share ownership. For decisions about future level of taxes, wait for Budget. (See also D1)

(ii) Higher privatisation proceeds from 1986-87 mean that PSBR targets should be reduced. (See D1)

(iii) Increase in receipts equals expected proceeds from British Gas. Government naturally does not give figures for receipts forecast from individual privatisation candidates. But BGC is clearly major factor.

(iv) Proceeds from British Gas [or any other privatisation candidate]: Wrong to try to predict. Much will depend on market circumstances at time. (See (iii) above)

(v) Risk of market indigestion/private sector crowded out. Timing of sales carefully planned. Success of privatisation has strengthened confidence and attracted new investors. Capacity of market very considerable. On large issues, Government also taps overseas markets to limited extent. End of policy of overfunding PSBR will reduce gilt-edged sales and increase market's capacity still further.

(vi) BA sale still delayed. Intention to sell as soon as practically possible in 1986-87.

(vii) Small investors squeezed out by institutions and overseas investors (eg Britoil). No. Firm policy is to favour small investors. Reflected in share allocations in recent sales. In Britoil, 80 per cent of applicants allotted shares, giving company 450,000 new shareholders - major achievement in widening share ownership. But no objection to participation of institutions - many millions of individuals have stake in these through pension and insurance arrangements. Overseas participation has been kept small, despite strong interest on part of foreign investors.

(viii) Industries sold off cheaply at taxpayers' expense. Nonsense. Every effort made to get good price. Wrong to look, with hindsight, at over-subscription and premium in early dealings and conclude issues were underpriced. Higher offer prices could well have produced less favourable market response and under-subscription.

(ix) City employees/big businesses favoured at expense of general public. No. Shares placed with institutions in some sales, such as BT, but not with their employees. [If pressed (eg on Singer & Friedlander case): Government will examine whether any changes should be made to arrangements for future sales, to ensure employees of institutions do not have undue advantage compared with general public.]

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(x) Why privatise monopolies? (Recent Public Policy Centre report argued privatisation over hasty; liberalisation more important.) All privatised businesses, so far, released in competitive market environment. But no case for denying natural monopolies, such as gas, benefits of privatisation - more management freedom, incentives, access to capital market - and important to expose them to competition for capital. Key opportunity to widen share ownership both among employees and public generally. Effective regulation will protect consumers and promote efficiency.

(xi) Gas/water/electricity prices increasing to fatten up industries for sale. No. But right that these important industries charge economic prices and earn adequate return on huge investments. Ultimately for industries to decide prices in light of investment needs and efficiency improvements.

(xii) BT abusing monopoly power by raising charges. (BT announced average 3.7 per cent increases from November compared with 2 per cent in 1984-85. Profits £1.48 billion in 1984; likely to be higher in 1985.) Price increases for basic telephone services must fall in real terms under current licence (valid at least until 1989) under RPI minus 3 per cent formula. Puts pressure on BT to be more efficient. Profits must be seen in context of need to fund investment programme. BT paid £535 million corporation tax in 1984 and over £100 million in dividends.

(xiii) Will targets be achieved? Proceeds from candidates presently under consideration for next four years more than sufficient to meet targets.

(xiv) "Assets being squandered"? (Lord Stockton claimed on 8 November that assets being sold could not be replaced: equivalent to "selling the family silver".) Transferring assets to private sector means will be better used and will prosper and grow. Privatised companies increase turnover, invest more and expand asset base. State ownership has reverse effect.

Contact point: J P McIntyre (PE2) 233 5141

G4 DEPARTMENTAL RUNNING COSTS

Factual

Chief Secretary confirmed in Written Answer on 22 October (OR Vol 84 WA 125) that limits will be set for each department's expenditure on administration (running costs) from 1986-87 onwards. Limits will be announced to Parliament early in 1986. Discussions are in hand with Public Accounts Committee (PAC) and Treasury and Civil Service Committee (TCSC) on presentation of limits in Estimates.

Positive

(i) Advantages of running costs limits:

(a) better and more flexible than manpower control alone. Value for money and administrative efficiency are proper criteria for decisions;

(b) encourage good financial management and consistent with developments in budgeting. FMI is all about delegated financial management. Running costs are important step. Control limits will be for total running cost expenditure and provide flexibility and choice to departmental managers in allocating resources;

(c) sit better than central pay assumption with Government's new approach to Civil Service pay negotiations.

(ii) Running costs limits will be effective control totals based on departments' own realistic estimates. Include estimates about pay. Will be tight estimates and tight controls. Running costs limits will operate in-year like cash limits so that programme expenditure is not automatically available to finance overspends on running costs.

(iii) There will be no mention of civil service manpower numbers in Autumn Statement. Aggregate manpower targets are as follows:

1 April 1986	600,475	(Cmnd 9428 figure adjusted for 4,450 reduction in MOD's target announced subsequently)
1 April 1987	600.439	(Cmnd 9428 figure)
1 April 1988	590,447	(Cmnd 9428 figure)

No manpower target set for 1 April 1989, but departments will be required to produce "indicative planning total" for staff to be employed within their agreed running costs provision.

Defensive

(i) Nothing in Autumn Statement on running costs. Autumn Statement concerns totals of public expenditure, highlighting priorities for programmes. Running costs limits will be contained within totals when set. Details now being finalised and discussions in hand with PAC and TCSC on presentation in Estimates. As Chief Secretary confirmed, running costs limits for each department will be announced early 1986.

(ii) Why control running costs?

(a) Ensures better basis for planning, monitoring and control. Running costs above inflation for last few years, so control important.

(b) Consistent with developments in financial management in departments, including devolved budgeting.

(c) Allows departments more freedom to choose between mix of inputs to achieve specified task.

(iii) Effects on Civil Service numbers: Overall manpower controls will remain with published targets to 1 April 1988. When running costs control working effectively, Government will review need for separate manpower control.

(iv) Do not expect any changes in existing civil service aggregate manpower targets as result of Survey.

(v) Departmental assumptions about future pay settlements in running cost limits

(a) settlement with Treasury on limit concentrated on overall cash figure for running costs;

(b) departments' bids, on which settlement of limit based, composite of pay, accommodation, external services and other administrative expenses;

(c) necessary to make assumptions not only about increases in costs, of which pay rates one factor, but also about wide range of running cost elements - manpower numbers, grade mix, overtime, incremental drift etc;

(d) running costs limit is single control total covering pay and non-pay costs. Assumptions about pay rates only one factor in building up totals on which limits based.

(vi) How have departments decided pay provision in running costs limits? Running costs limits not yet announced. Wait and see. Departments made own estimates of provision likely to need for pay bill as component in running costs limits. Included assumptions about pay rates, along with all other pay-related and non-pay related factors relevant to own departmental circumstances. These estimates and assumptions scrutinised by Treasury before running costs figures were settled.

(vii) Have departments made different assumtions about pay rates? Running costs limits not yet announced. No central pay assumption. Overall average for each department may well be different (because each will have given different weight to factors affecting pay bill). But estimates have been scrutinised by Treasury so range may be narrow.

(viii) Effect on pay. No slackening of Government policies on pay. Where Government is direct employer, will look for reasonable and moderate settlements within financial disciplines. Departmental expenditure on pay will have to be contained in running costs limit. Excessive settlements will still cost jobs. Continuing need for pay moderation in economy as a whole.

(ix) Dropping explicit pay assumption

(a) Pay assumptions never intended as norm or entitlement, or to have wider meaning beyond being necessary element of public expenditure planning. But came to be taken as a signal of Government pay aims more widely. Usefulness run out; differences between assumption and actual level of pay settlements weakened force of Government's message.

(b) No change in Government's view on need for pay moderation in economy as whole. Real earnings have been rising at 2 to 3 per cent per year, damaging employment. With inflation coming down, nominal settlements must come down even faster.

(c) Private sector must conclude settlements in knowledge Government will maintain firm monetary and fiscal policies. No intention of bailing out companies who damage themselves and others through excessive settlements.

(d) In public services, where Government is direct employer, will ensure moderate settlements; new running costs regime managerially more sensible and just as effective as pay assumption.

(e) Local authorities, not Government, responsible for level of settlements reached with their employees. But Government has intention of easing financial pressures on those authorities overspending, for any reason.

(f) Not a "victory" for public service unions who have campaigned to abolish pay assumption; excessive settlements will still cost jobs.

(g) Pay bargaining essentially a matter between employer and employee. But Government looks to both sides to understand links between pay and jobs and act accordingly.

Contact point: M J Hoare (RCM) 233 7188

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G5 CAPITAL/CURRENT AND INFRASTRUCTURE SPENDING

[See also Labour market (Brief B6), Alternative policies (D3), Transport (H10), Housing (H11), PSA (H12), Home Office (H16), Education (H18), Local authorities (H26)]

Factual

(i) Autumn Statement only provides outline expenditure plans for 1986-87, 1987-88 and 1988-89. Full details of capital/current split not yet known; must wait for outline decisions to be translated into detailed figures in 1986 Public Expenditure White Paper. But some details are known at this stage (see below) and some Ministerial Statements will include information for particular areas.

(ii) Total public sector capital spending still running at substantial level - over £22 billion in 1984-85. (Table 1.13 of Cmnd 9428 still most recent breakdown of total.)

(iii) Table 1.13 in Cmnd 9428 excludes most repair and maintenance (R&M). Adds approaching £5 billion to Table 1.13 figures. Public sector R&M expenditure risen around 8 per cent in real terms since 1979.

Positive

(i) Some increases in capital spending above previous plans: As Chancellor undertook at July NEDC, Government has taken into account NEDC discussion of infrastructure in reaching expenditure decisions. Larger Survey increases outlined under point (v) below.

(ii) Government's general record on capital/infrastructure spending good:

- average annual expenditure on basic infrastructure higher in real terms than when it came to power (Financial Secretary in 25 October speech). ("Basic infrastructure" defined as capital expenditure of certain nationalised industries and capital expenditure on roads and ports; uncertain amount of R&M expenditure not included in comparison.)

- Government has deliberately switched emphasis in provision of housing from public to private sector. Even so, total public capital spending broadly maintained in real terms since 1979. (See also Defensive (i))

- But control of total public expenditure and borrowing is route to sustained growth - best guarantee of improved infrastructure and lasting jobs.

(iii) Investment in whole economy:

- total fixed investment in economy at all time high in 1984 in real terms (£55 billion in current prices). Forecast to increase further in real terms - by 4½ per cent in 1985 and 3½ per cent in 1986.

- business investment also rose to all time high in 1984, up 15½ per cent in real terms.

- manufacturing investment rose by 14½ per cent in 1984.

(iv) Capital vs current: No 'target' or 'correct' level of capital spending. Must be judged case-by-case on merits taking into account wider economic and social benefits - including supply-side benefits where relevant and future extra costs if investment delayed. Government makes every effort to find room within overall spending totals for projects that show proper return. Some expenditure classified as current (eg industrial training, R&D, education) also represents "investment" in nation's future.

(v) Some increased provision above baseline in specific areas:

(a) Housing stock renovation: Additional housing provision of £220 million in 1986-87 and £200 million in 1987-88 intended for council house renovation, although final decision on use for local authorities. Figures provide for nearly £10 billion capital spending in total on housing over next 3 years. (See also H11)

(b) Roads: Capital spending on national roads up by £37 million 1986-87 and £52 million 1987-88. Local authority capital spending on roads up by some £20 million a year. Most of extra provision for structural maintenance; allows for renewal of 70 miles of motorway and trunk road each year. Will keep pace with deterioration and eliminate backlog in 5 years. (See also H10)

(c) PSA: 1986-87 expenditure increased by £8 million to cover additional spending on maintenance and major new works for civil estate. (See also H12)

(d) Prisons: Capital spending on prisons up £9 million in 1986-87, and £6 million in 1987-88. Aim of building programme to eliminate overcrowding. (See also H 16)

(e) Repair and maintenance: In some areas, Survey decisions will allow increases above previous plans in R&M spending on infrastructure, notably DES (schools) and D/Tp (local authority roads). (See also H18, H10)

(vi) No cuts in local authorities' capital spending this year. Gross spending remaining broadly constant throughout Survey period at about £5.8 billion a year. Represents large programme of capital works - significant infrastructure spending. (See also H26)

(vii) Bull points for specific sectors: (see Annex) **NB Does not include Autumn Statement changes,** as too soon for many details to be decided.

Defensive

(i) Government's record poor?

(a) Last Labour Government cut total capital spending sharply (public sector construction expenditure on "basic infrastructure" fell by 20 per cent in real terms between 1974-75 and 1978-79). Broadly maintained in real terms under this Government, despite switch in emphasis in housing provision (see Positive (ii)).

(b) In some areas sensible to spend less as society's needs and priorities change. No presumption that existing public capital stock should be kept in pristine condition. Right that private sector should increasingly take on some of public sector's role eg public corporations privatised; private sector housing investment highest ever in 1984.

(ii) Private housebuilding industry: Private housing completions in 1984 highest since 1973. Private housing starts running more than 5 per cent above last year's average in 1985Q2 and Q3. Investment in private dwellings at all time high in 1984. (See also H11)

(iii) Construction industry: Construction output in 1985 Q2 up 15 per cent on 1981 Q4 trough, up 2 per cent on 1984 Q2.

(iv) What are new capital figures? Too early to know most of breakdowns. Detailed figures have to be processed before tables can be produced for next Public Expenditure White Paper.

(v) State of infrastructure: Much alarmist talk. Consider cost-effectiveness. Need may be for current not capital (eg repair and maintenance) or better management (eg more intensive use of education facilities).

(vi) Capital spending boosts jobs. Accept Government spending may boost employment in very short-term. But in longer-term, job creation soon dissipated as inflation/interest rates rise. Tax cuts, by contrast, stimulate enterprise and initiative; best route to lasting jobs. (See also B6)

(vii) "Cost per job": Concept of measurement of "cost per job" very suspect, depending on computer simulations. Different models produce different results but invariably do not take account of supply side effects. Real issue is whether infrastructure schemes justified in themselves. (See also B6)

(viii) UK [public sector] infrastructure investment lowest in developed nations, as stated in CBI report 'Change to Succeed'? Difficult to comment when CBI do not divulge source. But international comparisons of capital spending inconclusive because of difficulties associated with lack of official standardisation. Comparison of "infrastructural investment" even more dubious. CBI would be wise to heed OECD point made earlier this year:

> "....the main problem for the UK is unlikely to stem from insufficient quantity of investment, but rather from the inefficient use of capital or poor quality of investment" (OECD Economic Survey of UK, page 18).

(ix) CBI report "Fabric of the Nation II", published 8 November, calls for increased spending on infrastructure within MTFS. Recommendations mostly familiar from previous CBI reports. Focuses on roads but mentions other areas. General line to take as in Positive (iv) above. Detailed briefing available from contact points for specific programmes.

(x) Government should invest privatisation proceeds in infrastructure. Privatisation proceeds should not be hypothecated to any particular use. Government takes decisions on capital investment, level of taxes etc on merits. Different considerations, including wider economic impact, brought together in MTFS and reflected in expenditure plans and borrowing projections. Privatisation brings nation economic benefit.

(xi) NHS capital spending (Press reports (eg Times 11 November) of increase of £200-250 million from sales of surplus accommodation.) Gross spending expected to be broadly maintained in real terms, since net provision will be supplemented by proceeds from sales. These should increase, although figures of £200-250 million are entirely speculative.

(xii) DOE housing stock survey: (See H11)

Contact point: P W McDonald (GEP2) 233 4607.

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G5

ANNEX

CAPITAL SPENDING AND INFRASTRUCTURE: SPECIFIC SECTOR BULL POINTS

[NB Consistent with Cmnd 9428. But **Autumn Statement figuring not included** as too soon for most details. Main brief contains specific points reflecting Autumn Statement outcome.]

Roads

Under Labour, capital spending on national roads cut by 30 per cent in real terms. Since 1979, increased by nearly 30 per cent. Spending on roads considerable: nearly £2½ billion on national and local roads in England in 1985-86. National road system about 6000 miles of key motorways and trunk roads - 480 miles opened since April 1979. 71 by-passes completed or under construction; 150 by-passes planned.

Water and Sewerage

Nearly £1 billion UK public investment in 1985-86. In England and Wales, increases from £744 million in 1984-85 to £815 million in 1985-86 - nearly 5 per cent real. Investment by water authorities increasing by 20 per cent (cash) over next 3 years.

Rail

Since 1979 there has been investment of £2½ billion in railways and further £2 billion is planned over next 5 years. In 1984 go ahead given to East Coast main line electrification - largest single project in last 25 years.

Gas

Capital expenditure on fixed assets rose from £402 million in 1979-80 to £874 million in 1984-85 in cash terms - 42 per cent real. Example of substantial project is development of Morecambe Bay gas field at estimated cost, by 1988-89, of over £1450 million (Sept 1983 prices).

Electricity

Cmnd 9428 shows capital expenditure on fixed assets (including North of Scotland Hydro-Electric Board and South of Scotland Electricity Board) rising from £1049 million in 1979-80 to £1742 million in 1984-85 in cash terms - increase of about 10 per cent real. Example of substantial project is Torness AGR power station, expected to be completed in 1986-87 at estimated cost of £1.2 billion.

NHS

Capital spending on NHS increased by 30 per cent real since 1979. 150 hospital schemes, each costing over £2 million, being designed or under construction. Expected that 1985 will see completion of 25 hospitals and further 26 in 1986. Over £1 billion yearly now being spent on NHS capital maintenance.

Educational Buildings

15 universities have major building projects in progress, or starting soon - at total expected cost of about £71 million (1985-86 prices). Maintenance expenditure on educational buildings risen substantially in real terms over recent years.

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H1 DEFENCE

Detailed questions to MOD

Factual

(i)	1985-86	1986-87	1987-88	£ million 1988-89
Cmnd 9428 adjusted for Budget measures etc	18,060	18,520	18,820	na
Survey changes	na	None	None	na
Departmental total	18,200*	18,520	18,820	18,990

* estimated outturn

(ii) Estimated outturn for 1985-86 reflects increase in provision for carry-forward of capital underspend from 1984-85 (£132 million) and external financing requirement of Royal Ordnance plc (£50 million). Increase met from Reserve. Increase in defence cash limit for carry-forward announced 18 July (OR WA 253-56) and Winter Supplementary Estimate presented 12 November.

(iii) For 1986-87 and 1987-88, provision remains as planned. For 1988-89, represents continuation of current policies.

(iv) Figures for each year include provision for Falklands costs, which decline markedly over period.

(v) Government announced in 1984 Public Expenditure White Paper (Cmnd 9143) and confirmed in Cmnd 9428 that would not aim to meet NATO real growth target after 1985-86.

Positive

(i) No change in planned provision for defence. Means continued improvements in capability, because MOD will retain benefits of improved efficiency (see Defensive (i)(d) below).

(ii) In absolute terms, and per head, level of UK defence expenditure is highest in Western Europe. As proportion of GDP, UK defence expenditure second only to US among major NATO allies.

(iii) Real growth in defence expenditure since 1978-79 nearly 30 per cent (measured by GDP deflator = cost terms).

(iv) Falklands costs now beginning to fall substantially with completion of capital programmes. Falklands costs for 1988-89 will be under £200 million, compared with £552 million in 1985-86.

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Defensive

(i) UK defence capabilities cannot be maintained without continued real growth

(a) Output which is important, not expenditure input. UK military capability stronger than ever been.

(b) Government never planned to implement NATO real growth target after 1985-86. June 1981 Defence White Paper (Cmnd 8288) made clear that real growth commitment would run only up to that year: defence planning has been on this basis.

(c) Real growth since 1978-79 has provided massive step increase in cash allocated to programme.

(d) Substantial scope for continued improvements in UK defence capabilities eg Army exercise 'Lean Look' will release 4,000 men from non-operational support tasks to front-line units; MOD Chief of Defence Procurement (Mr Peter Levene) aiming for significant savings on procurement budget through increased competition.

(ii) Provision for defence actually declines in real terms after 1985-86

(a) Bear in mind that figures include provision for Falklands costs, which are declining substantially.

(b) Defence output important.

(c) UK defence stronger than ever before. Provision set in cash at level judged sufficient to meet UK's defence needs, taking into account step increase provided by past real growth and scope for improving defence capabilities by increased efficiency.

(iii) Without real growth, Trident costs must mean reductions in conventional capabilities No.

(a) Nothing new in fitting large procurement programmes into defence budget. Trident smaller than Tornado aircraft programme.

(b) Expenditure on Trident will be spread over 18-20 years. Accounts on average for only about 3 per cent of overall defence budget and about 6 per cent of equipment budget.

(c) Current estimated cost of Trident just over £9 billion. But over the 18-20 year procurement period UK will be spending total of about £150 billion on equipment.

(iv) Falklands costs still too high/waste of defence resources? No.

(a) After 1985-86 Falklands costs decline substantially. In 1988-89 will be under £200 million, compared with £552 million in 1985-86.

(b) Falklands force levels kept under regular review. Falklands expenditure minimum necessary to defend islands.

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(v) Why changes since Cmnd 9428? Only technical classification changes and transfers to other departments to reflect changed responsibilities/charging arrangements.

Contact point: F Martin (DM1) 233 5746

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H2 FOREIGN AND COMMONWEALTH OFFICE (DIPLOMATIC WING)

Detailed questions to FCO

Factual

(i)

	1985-86	1986-87	1987-88	£ million 1988-89
Cmnd 9428 adjusted for Budget measures etc	610	600	620	na
Survey changes	na	+40	+40	na
Departmental total	620*	640	660	700

* estimated outturn

(ii) Outturn for 1985-86 £10 million higher than Cmnd 9428 mainly as result of adverse overseas price movements. Increased provision subject of Winter and Spring Supplementaries.

(iii) Bulk of increase over plans in 1986-87 and 1987-88 (about £33 million a year) is compensation for adverse overseas price movements affecting overseas missions and British Council.

(iv) Balance mainly for running costs and capital expenditure for BBC External Services. In 1988-89 provision includes adjustment of £20 million following completion of repayments of Yugoslav loan.

Positive

(i) Government maintaining commitment to improve world wide audibility of BBC External Services.

(ii) Increased provision gives protection against continuing high inflation overseas and effect of exchange rate movements.

Defensive

(i) Why shouldn't Diplomatic Wing be cut?

(a) Extra provision is in line with procedure, announced in Government's recent reply (Cmnd 5387) to Foreign Affairs Committee, for dealing with exchange rate movements and differential overseas inflation.

(b) Does not provide for increase in activity.

(c) If exchange rate and overseas inflation move in FCO's favour, provision will be correspondingly reduced.

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(ii) Addition for BBC External Services and British Council will allow both organisations to maintain existing level of activity.

Contact point: C J E Legg (AEF1) 233 4956

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H3 OVERSEAS DEVELOPMENT ADMINISTRATION

Detailed questions to ODA

ODA issuing Press Notice on 12 November. Secretary of State for Trade and Industry making statement on increased Aid and Trade Provision (ATP) on 12 November - DTI issuing as Press Notice.

[See also Public expenditure in 1985-86 (Brief G1)]

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
Cmnd 9428 adjusted for Budget measures etc	1260	1300	1320	na
Survey changes	na	20	30	na
Departmental total	1250*	1320	1350	1390

* estimated outturn

(ii) No underspend forecast for 1985-86. Apparent underspend derived from general rounding conventions used for Autumn Statement (see G1).

(iii) Increased provision (unrounded) of £20 million (1986-87), and £34 million (1987-88). Part will be used to increase ATP for new soft loans scheme (also drawing funds from ECGD) in association with private sector finance. (See also H8). Costs of scheme are:

£ million

	1986-87	1987-88	1988-89
ATP	3	10	20
ECGD	1	3	9
Total	4	13	29

(iv) UN target of 0.7 per cent of GNP for overseas aid.

(a) on OECD standard definition, 1984 UK aid programme 0.33 per cent of GNP.

(b) in aid spending terms, UK figure was 0.35 per cent in 1984.

Difference between two figures reflects difference in timing between spending of UK contribution by, and UK deposits with, multilateral agencies.

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Positive

(i) Increases will maintain overseas aid programme to 1988-89 at same level in real terms as in 1985-86.

(ii) UK aid programme substantial - sixth largest amongst those of western donors, and third largest within EC.

(iii) About two-thirds of UK's bilateral aid allocations go to poorest countries with greatest need for concessional funds. Over 90 per cent of bilateral aid given as grants rather than loans.

(iv) Aid programme continues to reflect close historical and cultural links with Commonwealth. Received 73 per cent of UK bilateral aid in 1984.

(v) Most of aid programme directed at promoting economic and social development over longer term. But in past 12 months UK given some £90 million in emergency aid to Ethiopia and Sudan and plans to spend more. Much channelled through voluntary agencies.

(vi) Additional funds provided for ATP will enable business won with ATP support to be doubled in three years.

Defensive

(i) Mr Kinnock's pledge at World Poverty Lobby on 22 October to double aid programme: Labour Party has made many pledges but must be paid for. Increases in aid no use if wiped out by inflation.

(ii) UN 0.7 per cent target for official development assistance:

(a) Government accepts UN target in principle but, like previous Administrations, has set no timetable for achieving it. Progress must depend on developments in economy and other claims on resources.

(b) In aid spending terms, UK figure was 0.35 per cent in 1984, close to Development Assistance Committee donors' average of 0.36 per cent.

(iii) Most important contribution industrialised countries can make to economic development of poorer countries is by establishing conditions which promote sustained non-inflationary growth of world economy. UK's policy of firm public expenditure control, contributes to this: aid programme cannot be exempt.

(iv) Although official aid has crucial role to play in alleviating problems of developing countries' trade, external private investment and commercial lending also essential - as are those countries' domestic policies. UK continues to be one of major sources of private capital flows to less developed countries - £1.42 billion in 1984.

Contact point: Miss M E Cund (AEF1) 233 7248.

H4: NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS

Factual

(i)

£ million

	1984-85	1985-86	1986-87	1987-88	1988-89
Cmnd 9428	690	750	640	830	na
Survey changes	na	na	+10	+320	na
Revised projection (Autumn Statement)	970*	800**	650	1150	950

* outturn

** estimated outturn

(ii) Outturn for 1984-85 was £280 million more than provided in Cmnd 9428.

(iii) In common with Cmnd 9428, latest projection assumes implementation of Fontainebleau agreement:

- UK receives abatement for 1984 of 1000 mecu payable in 1985; thereafter UK receives abatement equal to 66 per cent of its VAT/expenditure gap in previous year;

- VAT ceiling is increased to 1.4 per cent on 1 January 1986 and budget discipline applies.

Positive

(i) Fontainebleau agreement: successful culmination of Government's persistent efforts to negotiate lasting and automatic mechanism for correcting UK's net contributions.

(ii) As result of Fontainebleau agreement, UK's VAT rate after abatement should remain below 1 per cent, whatever VAT rate in other member states within new 1.4 per cent ceiling. Commission estimate our abatement in 1986 will be 1664 mecu (some £980 million). With this abatement, and on basis of 1986 draft Budget, UK's VAT rate in 1986 is likely to be only 0.56 per cent.

(iii) Net payments to Community institutions in future years likely to be about one half of what would have been if no agreement at Fontainebleau and with VAT ceiling remaining at 1 per cent.

(iv) 1986 draft Community Budget provides for agricultural market support expenditure in 10 existing member states within financial guideline.

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H4

Defensive

(i) Projection of UK's net payments to European Community institutions in 1985-86 and later years has increased over Cmnd 9428 provision mainly because of decline in our assumed share of receipts from Community Budget. In particular, our share of receipts in respect of agricultural market support expenditure revised down in light of developments so far in 1985-86. But Government continues to seek to maximise UK's share of receipts as far as possible within given Budget.

(ii) High outturn figure for 1984-85 partly reflects special financial arrangements required earlier by failure of Community to adopt 1985 Budget on time. Arrangements included advancing one month's payment of traditional (agricultural levies and customs duties) own resources from April to March 1985, and hence from 1985-86 into 1984-85; also lending to Community under overdraft facility.

(iii) Recent White Paper on the 1985 Community Budget (Cmnd 9633) estimated our net contribution to Community Budget in 1985 at £1,212 million. Relatively large net contribution to Community Budget in 1985 Q1 not reflected in 1985-86 figure of £800 million, but relatively low net contribution assumed for 1986 Q1 is included. 1985 figure also includes our contribution to Community's aid programme (some £135 million in 1985), scored in Autumn Statement and Cmnd 9428 as part of UK's overseas aid programme.

(iv) Projected swing from relatively low net payments figure for 1986-87 to high figure for 1987-88 largely reflects adoption earlier in 1985 of sterling/ecu "Budget exchange rate" for 1986. Under standard procedure, rate is that ruling on 1 February. Used for determining UK's VAT liability in 1986 Community Budget and affects staging of total payment between 1986 and 1987. Likely to reduce UK VAT contribution in 1986 but saving then has to be made good in 1987.

(v) Agreeing to increase in VAT ceiling was not missed opportunity for achieving future reductions in Budget. Fontainebleau agreement achieved lasting and automatic rebate system for UK, on fair basis for us and rest of Community.

Contact point: J Addison (EC) 233 8764

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H5 AGRICULTURE

Detailed questions to MAFF

Factual

A INTERVENTION BOARD FOR AGRICULTURAL PRODUCE (IBAP) AND OTHER COMMON AGRICULTURAL POLICY (CAP) EXPENDITURE

£million

(i)

	1985-86	1986-87	1987-88	1988-89
Inclusive of LA relevant expenditure and NI EFLs				
Cmnd 9428 adjusted for Budget measures etc.	1,440	1,280	1,300	na
Survey changes	na	+270	+340	na
Departmental total	1,900*	1,550	1,640	1670
[of which DAFS/ WOAD	90*	60	60	60]

(ii) IBAP and other CAP programme covers expenditure by IBAP and other Agriculture Departments on market support under CAP and administrative costs of IBAP. Most of market support expenditure is ultimately financed from EC Budget, receipts from which are reflected in UK's net contribution to EC.

(iii) Forecast outturn for 1985-86 (£1,900 million) is £460 million (32 per cent) above provision in Cmnd 9428. Main factors responsible:

(a) increased cereals intervention following 1984 harvest, much of which was paid for in 1985-86;

(b) revised forecast of cereals and beef intervention in 1985; and

(c) timing change in payment of annual ewe premium.

Winter Supplementary Estimates being presented for both IBAP Votes (Class III, Votes 1 and 2).

(iv) Increases above Cmnd 9428 provision of £270 million (21 per cent) for 1986-87 and £340 million (26 per cent) for 1987-88 reflect revised assumptions about future intervention levels, taking account of experience in 1984 and 1985. Also include some £5 million a year additional provision for IBAP's administrative costs including computers.

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B DOMESTIC AGRICULTURE

£ million

(i)		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure and NI EFLs				
	Cmnd 9428 adjusted for Budget measures etc.	850	820	800	na
	Survey changes	na	+10	+10	na
	Domestic Agriculture	880 *	830	820	830
	[of which (DAFS/ WOAD	220 *	200	190	200]
(b)	Exclusive of LA relevant expenditure and NI EFLs				
	Survey changes	na	+10	+10	na
	Departmental total	760 *	720	710	720

* estimated outturn

(ii) Domestic agriculture programme covers national expenditure on agriculture, fisheries and food on UK basis. Territorial allocation will be given in next Public Expenditure White Paper.

(iii) Forecast outturn in 1985-86 is some £30 million (4 per cent) above provision in Cmnd 9428, mainly because of forecast increase in expenditure on capital grants. Winter Supplementary Estimates will be presented for all three Agriculture Departments.

(iv) Provision in 1986-87 and 1987-88 is some £10 million (1 per cent) above provision in Cmnd 9428 in each year. Net increases cover miscellany of minor changes, including additional provision for sea fisheries protection patrols in Scotland and for capital expenditure at Royal Botanic Gardens at Kew (transferred from PSA).

Positive

Substantial increases in expenditure both in current and future years demonstrate Government's commitment to support for British agriculture.

Defensive

(i) Large increases for IBAP reflect latest estimates of cost of implementing current CAP policies. Forecasts highly uncertain and dependent on weather, harvests, market conditions, etc.

(ii) Government remains determined to seek sensible reforms to CAP, notably adoption of more realistic pricing policies to discourage surplus production. 1984 agreement on financial guideline for EC expenditure on agricultural support from 1986 onwards should impose real constraint on size of future CAP price settlements. Majority of member States favoured substantial price cut for cereals in 1985. Although blocked by Germany, Commission implemented cut of 1.8 per cent. Commission's recent Green Paper on Perspectives for the CAP recognises need for action on prices.

(iii) Food aid: UK has recently argued in EC Development Council that food aid for famine relief should be first charge on EC food aid programme (currently 635 mecu (£365 million)) and that reserve should be established to meet emergency needs.

(iv) Winter Supplementaries for Agriculture Departments mainly for forecast overspend on capital grant schemes now closed. New grant schemes (with lower grant rates) introduced on 1 October. Agriculture Ministers undertaken to monitor response very closely so that, taking one year with another, if look likely to exceed planned levels of expenditure, action could be taken to bring back on course.

Contact point: R J Bonney (IAE1) 233 4536

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H6 TRADE AND INDUSTRY

Detailed questions to DTI

[See also Nationalised Industries (Brief H25)]

Factual

(i) £ million

		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure & NI EFLs				
	Cmnd 9428 adjusted for Budget measures etc	1,490	1,380	1,140	na
	Survey changes	na	-80	-60	na
	Departmental total	1,650*	1,300	1,080	940
(b)	Exclusive of LA relevant expenditure & NI EFLs				
	Survey changes	na	-20	-	na
	Department total	1,100*	1,100	950	940

* estimated outturn

(ii) **DTI (inclusive)**

(a) Provision in 1986-87 is £1300 million, decrease of £350 million (21 per cent) on estimated outturn in current year.

(b) In 1987-88 and 1988-89 expenditure planned to fall by 17 per cent and 13 per cent respectively, mainly because of changes in nationalised industries' external finance and Regional Development Grant (RDG) provision.

(c) Nationalised industries' EFLs: Overshoots expected on BSC's and BS' EFLs in 1985-86 (account for almost all of overspend) but subsequent reduction in departmental provision over Survey period largely consequence of diminishing dependence of BSC on public finance and improved financial performance by Post Office. (See also H25)

(iii) **DTI (exclusive)**

(a) Programme broadly unchanged compared with Cmnd 9428. Some minor internal reallocations and transfers to other programmes (civil defence, engineering and technology places in higher education).

(b) Reduction between 1986-87 and 1987-88 largely result of reduced spending on RDG, announced by then Secretary of State for Trade and Industry in November 1984 (OR 28 November vol 68 col 936).

Positive

(i) DTI's programme (exclusive) has, as announced by then Secretary of State for Trade and Industry on 25 March (OR vol 76 col 38) increased emphasis on providing advisory services to industry and less on subsidising projects where private sector should play greater role in future.

(ii) Reduction in provision for nationalised industries reflects important steps being taken to improve efficiency and profitability.

(iii) Post Office: Negative EFL moves from - £51 million in 1983-84 to a planned -£93 million in 1986-87.

Defensive

(i) Nationalised industry overshoots - reflect costs to BS of disposal of Scott Lithgow and decisions on BSC's strategy announced by Secretary of State for Trade and Industry on 7 August. Government's objective is eventual privatisation.

(ii) Decline in programme (exclusive of LA relevant expenditure and NI EFLs) in 1987-88 principally due to changes in RDG scheme announced in 1984.

Contact points: Nationalised industries: J Williams (PE3) 233 3522
Other: E A Yeo (IAE2) 233 4051

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H7 ENERGY

Detailed questions to Department of Energy
[See also Public expenditure in 1985-86 (Brief G1), Nationalised industries (H25)]

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
(a) Total provision inclusive of NIs' EFLs				
Cmnd 9428 adjusted for Budget measures, BGC privatisation and other changes	-70	-940	-880	na
Survey changes	na	+1,050	+330	na
Departmental total	1,000 *	110	-550	-290
(b) Exclusive of NIs' EFLs (but including RMPS)				
Survey changes	na	+200	-30	na
Narrow Departmental total	820 *	800	580	590
(c) NIs' EFLs				
Survey changes	na	+850	+350	na
D/En EFLs	+200 *	-690	-1,140	-880

* estimated outturn

(ii) 1985-86 outturn over £1 billion up on plan because of knock-on effects of coal strike on NCB and electricity industry, partly offset by improving NCB profitability.

(iii) Main changes in Energy provision are in nationalised industries' EFLs (see H25), together with accelerated spending on Redundant Mineworkers' Payments Scheme (RMPS).

(iv) Some £20 million a year is added to spending on Atomic Energy Authority (AEA). Primarily consequence of decision that AEA should become trading fund from 1986-87 (announced by Parliamentary Under Secretary of State for Energy on 11 February 1985 - OR Vol 73 col 30).

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(v) Survey changes for 1987-88 include loss of negative EFL from BGC's privatisation. For 1986-87, Autumn Statement shows adjustment of -£400 million in respect of NIs to be privatised. BGC's external finance for period it remains in public sector in 1986-87 is included in this figure together with BA (see H25). Not possible to identify separately figures for BGC and BA because exact timing of sales could affect individual figures by hundreds of millions of pounds.

(vi) Coal strike costs:

£ billion

	1984-85		1985-86	
Nationalised industries' EFLs (NCB, ESI, BR, BSC)	2.4		1.0*	
Other (police, social security, RMPS)**	0.1		0.15	
public expenditure		2 ½		1 ¼
PSBR (including tax)		2 ¾		1 ¼

* includes cost of coal restocking
** takes account of timing effects on miners' redundancies

Positive

(i) Virtually no change in departmental spending (ie excluding EFLs and RMPS).

(ii) Effect of AEA's becoming trading fund will be PSBR neutral or better, even though measured public expenditure rises a little. Longer term efficiency savings from more commercial orientation.

(iii) RMPS spending reflects effort to put NCB on profitable footing quickly, by eliminating loss-making capacity. Long run benefits to NCB will exceed short run costs.

(iv) Electricity prices, domestic gas prices: see H25.

Defensive

(i) Strike costs in 1984-85 and 1985-86 taken together now estimated at approximately £4 billion. Heavy but worth meeting to underwrite determination to get NCB on commercial profit-oriented strategy. Haemorrhage of sustained losses had to be stopped. [If pressed on accounting losses of £4.3 billion in 1984-85 for NIs: industries' losses reflect profit forgone and do not take account of certain offsetting savings such as reduced NCB investment.]

(ii) Figures for NCB are provisional in advance of NCB post-strike business plan. To be reviewed later in 1985-86.

(iii) Higher EFLs for ESI in 1986-87 and 1988-89 needed because of additional costs, notably higher investment.

(iv) Revised EFL for ESI in 1985-86 to be announced shortly.

(v) Gas prices: see H25.

Contact point: J Bird (PE1) 233 8719.

H8 EXPORT CREDITS GUARANTEE DEPARTMENT

Detailed questions to ECGD

[See also Monetary and exchange rate developments and policy (Brief D2)]

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
Cmnd 9428	130	80	-40	na
Survey	na	+200	+210	na
Departmental total	340*	280	170	100

* estimated outturn

(ii) ECGD provides credit insurance guarantees to banks and exporters against non-payment by customers overseas. Also provides interest rate support enabling exporters to offer customers fixed rate export finance at rates governed by international agreement (OECD Consensus). Public expenditure provision covers latter activity only (see Defensive (ii)).

(iii) Estimated outturn for 1985-86 shows substantial increase, reflected in Summer Supplementary Estimates, with rise of £167 million in provision for ECGD's public expenditure programme. This reflects higher estimates of interest support costs for fixed rate export finance, under which ECGD makes up difference between variable rate of interest due to banks and fixed rate paid by customers. This Vote (Class IV, 9) is not cash-limited.

(iv) Provision in Survey period increased for same reason.

(v) Figures include cost to ECGD of soft loans package (see H3).

Positive

(i) Forecasts of interest support costs take account of number of factors including assumptions about business levels, exchange rate movements and interest rates.

(ii) Increased cost of interest support mainly reflects effect of higher sterling and dollar short-term interest rate assumptions on existing business. Cost of interest support for new business will be more easily contained by OECD Consensus which now links minimum fixed rate charged to borrowers more closely to market rates.

Defensive

(i) Not customary to disclose interest rate assumptions underlying public expenditure projections. (See also D2)

(ii) ECGD's public expenditure provision does not cover its trading activities since these are intended to operate at no net cost to public funds over time. Although cost of claims currently exceeds income from premium and recoveries, believed that bulk of claims payments should eventually be recovered.

Contact point: H J Bush (AEF2) 233 4724

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H9 EMPLOYMENT

Detailed questions to DE

DE Ministers making Statements in both Houses on 13 November to which Chancellor will refer in own Statement. DE issuing Press Notices on 13 November

[See also Employment and Unemployment (Brief B5), Labour market (B6), National Insurance contributions (E1)]

Factual

(i)

	1985-86	1986-87	1987-88	1988-89
(a) Inclusive of LA relevant expenditure				
Cmnd 9428 adjusted for Budget measures etc	3,370	3,830	4,020	na
Survey changes	na	-70	-210	na
Total changes since Cmnd 9428		+570	+590	
Departmental total	3,300*	3,760	3,810	3,990
(b) Exclusive of LA relevant expenditure				
Survey changes	na	-80	-210	na
Departmental total	3,250*	3,670	3,730	3,910

* estimated outturn

(ii) Provision for DE Group in 1986-87 is £3,760 million, 2 per cent below Cmnd 9428 figures adjusted for Budget and classification changes.

(iii) Provision for DE Group in 1986-87 and 1987-88 increased by about £600 million above Cmnd 9428 unadjusted figures.

(iv) Savings result mainly from reductions in expenditure from Redundancy Fund and lower projected expenditure on some employment measures (notably Job Release Scheme). Partly offset in all years by expansion of Enterprise Allowance Scheme and higher expenditure on tourism, small firms and DE Group running costs. Statement in both Houses to follow on 13 November.

[**NB only for use after 4.30 pm 13 November:** Savings on Redundancy Fund reflect abolition of employers' rebate (except for very small firms) from November 1986.]

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Positive

(i) DE Ministers making Statement in both Houses on 13 November about Government's policies for enterprise and employment.

(ii) Plans allow for further expansion of Enterprise Allowance Scheme [**for use only after DE Statement** to provide an extra 15,000 places a year by 1987-88.]

(iii) Further assistance for local enterprise agencies and extra resources for tourism in all future years will promote enterprise.

(iv) Budget already included substantial increases for Youth Training Scheme and Community Programme, totalling some £600 million in 1986-87 and almost £800 million in 1987-88.

(v) Number of places on employment measures estimated to rise by over 150,000 by spring 1987 as result of changes since Cmnd 9428.

Defensive

(i) Why cut spending on employment measures when unemployment so high?

(a) Budget already increased provision for Youth Training Scheme and Community Programme. Provision risen by about £600 million in 1986-87 and 1987-88 since Cmnd 9428 unadjusted (see Factual (ii) and (iii)).

\- (b) Total provision for DE Group in 1986-87 around 11½ per cent over planned spending in 1985-86. Savings partly derived from revised forecasts of demand for redundancy payments and some employment measures, reflecting changed demographic factors and improvement in employment prospects.

(ii) Higher spending on employment measures would require some mix of lower spending in other areas, higher taxation or higher borrowing. Each carries penalty which would fall on jobs elsewhere in economy.

(iii) Large increase in DE group running costs. Overall, 7.4 per cent in 1986-87. But excluding increases for Budget measures and extra staff to deal with fraud, net increase marginally below 4 per cent.

(iv) Reductions in expenditure from Redundancy Fund will be described in more detail in Statements on 13 November. [If pressed: refer to DE]

(v) Projected expenditure on Job Release Scheme lower than in Cmnd 9428 because of lower than expected take up.

Remainder of material not to be used before Statements on 13 November:

(i) Savings from cessation of redundancy rebates have allowed increases in provision for enterprise, employment and small firms. Rebates will still be paid to very small firms and redundancy payments will still be made direct to employees of firms in financial difficulties. For most large firms, rebates are very small part of redundancy costs.

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(ii) Public expenditure savings from abolition of redundancy rebates bogus. No. Rebates from Fund are public expenditure, so reductions in them are reductions in public expenditure.

(iii) Effect on public finances overall depends on implications for NICs: For 1986-87, rebates will be paid for most of year and no change has been made in NIC rates. For later years, decisions on changes in NICs will take account of abolition of redundancy rebates and any consequent change in Employment Protection Allocation. But only one of number of factors. (See E1)

(iv) Bad time to abolish employers' rebates, given 1985Q2 increase in reductions over 1985Q1. Numbers volatile from quarter to quarter. Confirmed redundancies in Q2 - last quarter for which firm data available - 10 per cent down on 1984 quarterly average.

Contact point: J MacAuslan (IAE3) 233 3690.

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H10 TRANSPORT

Detailed questions to D/Tp

D/Tp issuing press release on 12 November.

[See also Capital/current and infrastructure spending (Brief G5), Local authorities (H26)]

Factual

(i)		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure + NI EFLs				
	Cmnd 9428 adjusted for Budget measures etc	4,540	4,830	4,790	na
	Survey changes	na	-20	+50	na
	Departmental total	4,500*	4,810	4,840	4,830
(b)	Exclusive of LA relevant expenditure + NI EFLs				
	Survey change	na	+30	+30	na
	Departmental total	1,800*	1,980	2,020	2,090

* estimated outturn

(ii) Provision for Transport in 1986-87 is £4,810 million, 0.5 per cent below Cmnd 9428. But 6 per cent more than estimated 1985-86 outturn.

(iii) Provision for capital spending on national and local roads increased; transport industries' provision reduced.

(iv) In recognition of competition introduced by bus deregulation, future capital investment by local authority bus companies financed from trading income, rather than loans from parent authority, no longer counted as public expenditure. With similar change for airports, £39 million annual reduction. (See Defensive (iii) and H26.)

Positive

(i) Provision for capital spending on national roads increased by £37 million in 1986-87 and £52 million in 1987-88. Provision for local authority capital expenditure on roads increased by about £20 million a year.

(ii) Much of extra provision on roads to be spent on structural maintenance. Allows for renewal of 70 miles of motorway and trunk road each year.

(iii) Real spending on national roads cut 30 per cent under Labour 1974-79. Already risen by almost 30 per cent under this Government.

(iv) Extra 200 fee-earning staff to be employed particularly to meet public demand for driving tests.

(v) Additional provision (£17 million in 1986-87 alone) for local authority capital investment in transport - new rail links, improved bus garages, computerised ticket systems.

Defensive

(i) Spending on roads already considerable: £824 million on motorways and trunk roads and £1,474 million on local roads in England in 1985-86.

(ii) Extra spending on structural maintenance of roads will keep pace with deterioration and eliminate backlog in 5 years.

(iii) Change in treatment of future capital investment by local authority bus and airport companies: With competition introduced into bus industry, appropriate to control local authority transport companies in same way as nationalised industries. Means capital spending financed by internal resources no longer counts as public expenditure.

Contact point: V Imber (HE1) 233 8410

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H11 HOUSING (ENGLAND)

Detailed questions to DOE

Secretary of State for the Environment will give Written Answer on 12 November.

[See also Monetary and exchange rate developments and policy (Brief D2), Capital/current and infrastructure spending (G5)]

Factual

£ million

(i)	Cmnd 9428*	1985-86	1986-87	1987-88	1988-89
	capital	3,050	3,120	3,150	na
	current	950	940	910	na
	receipts	-1,730	-1,530	-1,430	na
	net	2,280	2,530	2,630	na
	Autumn Statement**				
	capital	**	3,250	3,210	3,110
	current	**	1,100	1,100	1,100
	receipts	**	-1,600	-1,480	-1,340
	net	2,700	2,750	2,830	2,880
	Change				
	capital	**	+130	+60	na
	current	**	+160	+190	na
	receipts	**	-70	-50	na
	net	+400	+220	+200	na

* adjusted to reflect transfer of central government housing administration to DOE

** see Defensive (iv)

NB individual figures may not sum to totals due to rounding.

(ii) Capital provision mainly covers new public sector provision for rent (by local authorities (LAs) and housing associations), council house renovation and home improvement grants.

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(iii) Increases in capital are to provide for additional council house renovation, offset by effects of winding down of 1982 and 1983 Budget initiatives on home improvement grants and reducing public sector new starts to plateau of around 30,000 units a year.

(iv) Increases in current spending reflect effect on subsidies of revised economic and Housing Revenue Account debt assumptions since Cmnd 9428.

(v) Forecast receipts increased by £70 million in 1986-87 and £50 million in 1987-88 reflecting higher council house sales and higher Housing Corporation receipts.

(vi) DOE report to be published 12 November gives LAs' estimate that £19 billion expenditure required to deal with backlog in renovation of their own housing stock.

Positive

(i) Figures provide for nearly £10 billion (£9.57 billion) capital expenditure on housing over next 3 years, despite Government's deliberate policy since 1979 of switching emphasis in provision of housing from public to private sector.

(ii) Spending on council house renovation running at over £1 billion. LAs spending further £1.25 billion a year in current expenditure on repair and maintenance.

(iii) Additional provision of £220 million in 1986-87 and £200 million in 1987-88.

(iv) Increased provision intended for council house renovation. Counters LAs' criticism of mounting backlog.

(v) Programme total increased by £220 million in 1986-87. Will enable gross provision for capital expenditure to be set at £3,250 million - £200 million above Cmnd 9428 for 1985-86.

(vi) Difficult to forecast exactly how LAs will spend additional provision, which is not earmarked for particular types of spending. Assuming authorities continue with recent trend of spending less on new build and improvement grants, should be able to devote many hundreds of millions of additional resources to renovation of stock, compared with 3 years to 1985-86.

(vii) Revised provision should be sufficient to renovate more than ¾ million dwellings over 3 years at average cost of £5,000 (DOE report).

(viii) LAs and New Towns renovated over 87,000 dwellings in 1984 - highest number since 1973. Figures for capitalised repair highly uncertain but may add of order of 150,000 dwellings. (No precise estimate available as figures not collected by DOE.)

(ix) Since April 1979, sales of public sector dwellings in England have totalled over 750,000 (over 873,000 for GB as whole).

(x) Private sector prospects look healthy. Over 1985 Q2 and Q3 private housing starts have been running more than 5 per cent above 1984 average. Investment in private dwellings at all time high in 1984.

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H11

Defensive

(i) Renovation: Provision adequate to deal with high priority expenditure on reasonable timescale.

(ii) DOE report: Additional provision for housing enables start to be made on rectifying problem which certainly exists. (See also G5)

(iii) Overspending in 1985-86 on Cmnd 9428 plans mainly reflects continued effect of 1982 and 1983 Budget initiatives on home improvement grants, lower than expected capital receipts and revised economic assumptions.

(iv) Capital/current/receipts breakdown for 1985-86 outturn: Too early in year to give authoritative breakdown. [Refer further questions to DOE.]

(v) Capital/current balance looks lower than in Cmnd 9428. Distinction not clear cut. Maintenance is current but can forestall renovation which is capital. Loan charges on capital expenditure account for much current spending.

(vi) Homelessness: Statistics main cause of controversy in this area. Cover families who are accepted as homeless and housed by local authorities. Problem only arises if no suitable permanent accommodation can be found and bed and breakfast accommodation has to be used as long term measure. Very localised problem confined to handful of London authorities.

Contact point: P J Stredder (LG2) 233 5343

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H12 PROPERTY SERVICES AGENCY

Detailed questions to PSA

Secretary of State will give Written Answer referring to increased provision for 1986-87 on 12 November. Will also be covered in joint DOE/PSA Press Notice to be issued 12 November.

[See also Capital/current and infrastructure spending (Brief G5)]

Factual

(i)

	1985-86	1986-87	1987-88	1988-89
				£ million
Cmnd 9428 adjusted for Budget measures etc	-100**	-100	-110	na
Survey changes	na	+10	None	na
Departmental total	-110*	-90	-110	-110

* estimated outturn

** for 1985-86 the figure only reflects classification changes.

(ii) Provision shown above relates only to general office estate. Provision for specialised estate (eg museums and galleries, courts and prisons) is mainly borne on occupying departments' programmes.

(iii) Difference between estimated outturn and Cmnd 9428 in 1985-86 represents PSA programme's share of reduced spending to offset excess Vote in 1984-85.

(iv) Figures rounded to nearest £10 million. More precisely, PSA's provision has been increased by £7.2 million in 1986-87 to cover additional expenditure on maintenance and major new works for civil estate. No change in provision for 1987-88.

(v) Provision is negative ie net of receipts from property repayment system (under which PSA charges 'rents', based on market values for Crown freehold as well as leased properties). Gross provision is £590 million for each of three years 1986-87 to 1988-89.

Positive

(i) Increased provision in 1986-87 will enable PSA to make start on some major new works and to carry out more maintenance.

(ii) Expenditure on Palace of Westminster accommodation increased by £800,000 in 1986-87. (PSA's Vote will bear cost. But expenditure not included in Departmental total above.)

(iii) PSA retaining additional receipts from disposal of surplus properties which exceed Cmnd 9428 plans by £7.8 million in 1986-87 and £11 million in 1987-88.

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Defensive

Provision maximum that can be afforded, given competing claims on resources. To extent that PSA can increase receipts from disposals, further funds will become available.

Contact point: R J Meadows (LG2) 233 3190

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H13 URBAN PROGRAMME (UP)/INNER CITIES

Detailed questions to DOE

DOE probably issuing Press Notice on 12 November.

[See also Other environmental services (Brief H14), Home Office (H16), Value for money (H27)]

Factual

(i) Provision for 1986-87 onwards unchanged from Cmnd 9428:

£ million

	Cmnd 9428	1985-86 AS	1986-87	1987-88	1988-89*
DOE	241	239	226	232	237
Other Departments	97	98	91	92	92
TOTAL	338	337	317	324	329

* No figures given in Cmnd 9428.

(ii) UP is 75 per cent Exchequer Grant in support of agreed local authority expenditure in inner city areas.

(iii) DOE component of UP is part of "other environmental services" programme. Rest is part of Health and Personal Social Services, Education and Science and Transport programmes.

Positive

(i) UP already more than tripled under this Government from £93 million in 1978-79 to £338 million in 1985-86. £1.9 billion spent in total since 1979.

(ii) UP provision maintained at Cmnd 9428 level. Continued commitment to inner cities.

(iii) Efforts to improve targetting and management of expenditure eg City Action Teams, Urban Programme Management Initiative and value for money review of inner city assistance (the last announced by Chancellor at NEDC 5 November) will contribute to getting more from maintained level of spending. (See also H27)

(iv) Urban Programme only fraction of public spending in inner cities. Spending under Urban Programme, Urban Development Corporations and Derelict Land Grant topped £503 million in 1985-86, compared with £113 million in 1978-79 - considerably more than double in real terms. Spending on DOE, DE and DTI programmes in 7 partnership areas is £629 million in 1985-86.

(v) Urban Development Grant attracts private sector funds - £400 million private sector expenditure for £75 million public since its inception in 1982.

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(v) Pupil/teacher ratios in areas of inner city tension:

ILEA	15:1	
Haringey	16:1	
Liverpool	18:1	Primary and secondary schools combined
Birmingham	19.2:1	
National Average	18.7:1	

Only Birmingham above national average

Defensive

(i) Fall in UP spending between 1985-86 and 1986-87: Reflects decision in 1984 Survey to concentrate Programme on most needy areas.

(ii) Government has taken away more in Rate Support Grant (RSG) than made available through UP. RSG actually paid to partnership and Programme authorities has remained roughly constant over last 4 years [in cash terms] at over £1½ billion a year in total. Liverpool is exception. But if brings budget back into balance, lost grant will be repaid.

(iii) Government considering implications of recent riots. Conducting value for money review of inner city assistance. Focus will be on ways of achieving still better results from existing resources. (See H16)

(iv) Misleading to attribute recent riots to high unemployment or to expect them to be solved by increasing public expenditure. Over half arrested in recent riots were not unemployed. (See H16)

Contact point: P J Stredder (LG2) 233 5353

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H14: OTHER ENVIRONMENTAL SERVICES

Detailed questions to DOE

DOE issuing Press Notice on 12 November.

[See also Urban Programme (Brief H13), Local authorities (H26)]

Factual

(i) £million

	1985-86	1986-87	1987-88	1988-89
(a) Inclusive of LA relevant expenditure and NI EFLs				
Cmnd 9428 adjusted for Budget measures etc.	3,450	3,560	3,500	na
Survey changes	na	+60	+30	na
Departmental total	3,950*	3,620	3,530	3,560
(b) Exclusive of LA relevant expenditure and NI EFLs				
Survey changes	na	-20	-20	na
Departmental total	1,100*	840	850	880

* estimated outturn

(ii) "Other environmental services" covers capital and current expenditure by local authorities on environmental services eg refuse collection and disposal, by DOE on programmes eg derelict land reclamation and environmental research, by sponsored bodies eg Nature Conservancy Council and Sports Council and Urban Programme (see H13).

(iii) Estimated outturn for 1985-86 £500 million above provision. Attributable to prospective overspends on local authority current and capital.

(iv) For 1985-86 Winter Supplementary Estimates presented for various minor changes in provisions. No claim on Reserve.

(v) Provision in England for 1986-87 is £3620 million. Net increase of £60 million (approaching 2 per cent) on Cmnd 9428.

(vi) Some additional New Towns capital receipts being retained by DOE will provide extra gross spending power of £50 million in 1986-87 and £30 million in 1987-88.

(vii) Increased provision for local authority capital expenditure of £40 million in 1986-87 and £10 million in 1987-88 partly reflects reallocation of responsibility for spending on waste disposal, resulting from abolition of GLC and Metropolitan County Councils.

Positive

Increased provision for local authority capital expenditure on local environmental services, Nature Conservancy Council, Countryside Commission, Royal Palaces and historic buildings and ancient monuments.

Defensive

(i) Although net provision for DOE (excluding local authority current and nationalised industries) reduced, gross expenditure provision higher than Cmnd 9428, because of increases in capital receipts from disposals by New Towns of around £50 million a year. Gross expenditure is what counts for level of service provided.

(ii) Reduced provision for Urban Programme: See H13.

(iii) (Inclusive) total falls between 1985-86 estimated outturn and 1986-87 plans because planning on basis that 1985-86 overspend will not be repeated. (See also Factual (iii) and H26). Slight fall from 1986-87 to 1987-88 mainly because of lower external financing requirements by water authorities.

Contact point: K J Pike (LG2) 233 4611

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H15 SALES OF SURPLUS LAND AND HOUSING

Detailed enquiries to individual departments

Factual

(i) No separate reference in Autumn Statement to disposal of surplus land and empty housing initiative.

(ii) Expected receipts are: **£ million**

1986-87	1987-88	1988-89
150	130	110

(iii) About 90 per cent of receipts will be accounted for by MOD, PSA and Home Office.

(iv) Information about nationalised industries has been sought in annual Investment and Financing Review.

Positive

Departments taking urgent steps to remove existing surplus within three years. Many of targets anticipate disposal of further surpluses still to be identified.

Defensive

Figures show good progress in identifying surpluses. More in pipeline. PSA are carrying out scrutiny with view to strengthening arrangements for identification.

Contact point: R Meadows (LG2) 233 3190

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H16 HOME OFFICE

Detailed questions to Home Office

Home Office issuing Press Notice on 12 November.

[See also Capital/current spending and infrastructure (Brief G5)]

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
(a) Inclusive of LA relevant expenditure & NI EFLs				
Cmnd 9428 adjusted for Budget measures etc.	4,590	4,790	4,870	na
Survey changes	na	+170	+140	na
Departmental total	4,750	4,960	5,010	5,040
(b) Exclusive of LA relevant expenditure & NI EFLs				
Survey changes		+43	+44	na
Departmental total	1,000*	1,100	1,150	1,190

* estimated outturn

(ii) About three-quarters of programme spent on police, fire and other local authority services and one-quarter on central government activities of which prison service is largest.

(iii) Winter Supplementary Estimates being presented for Class IX.6 (Police and Other Grants) of £44 million (£39 million to cover increased police expenditure, including £13 million for policing costs of coal strike) and for Class IX.8 (Prisons England and Wales) of £1.3 million under end-year flexibility arrangements.

(iv) Net increase of £43 million in Home Office departmental expenditure over Cmnd 9428 for 1986-87. Includes £30 million for prison service. Provision for increased UK contributions to international programmes to stem flow of illegal drugs and for immigration and nationality and passport departments, offset by increased receipts from local authorities arising from sale of police houses.

Positive

(i) Overall increase demonstrates Government's continuing commitment to maintenance of law and order consistent with need to ensure value for money.

(ii) Government recognises special problems caused by riots and has announced increase in Metropolitan Police's cash limit for 1985-86 (OR 30 October 1985 Vol 84 WA Col 562).

(iii) Uniformed police manpower increased by over 8,000 since 1979.

(iv) Law and order spending up by 25 per cent since 1979. Have delivered commitment to protecting life and property.

(v) Aim remains to eliminate prison overcrowding. Extra capital spending on prisons building programme of £9 million in 1986-87 and £6 million in 1987-88. Further inmate places in 1985-86 from commissioning of converted RAF camp at Lindholme.

(vi) Increased manpower and provision for immigration and nationality department allows for opening of new terminal at Gatwick.

Defensive

(i) Priority given to law and order spending cannot amount to blank cheque. Still need for efficiency and value for money.

(ii) Well aware of pressures on prison service caused by recent growth in prison population. Commissioning of Lindholme prison, recruitment of additional prison officers etc will help. But remain committed to providing places for those to whom Courts give custodial sentences.

(iii) Requests for additional resources for police will be scrutinised speedily and thoroughly. As Prime Minister said in Blackpool on 11 October, different equipment may be needed. But no problems, least of all policing and law and order, benefit from having resources thrown at them without regard to how effectively they can be used.

(iv) Industrial action on 11 November by immigration officers at Heathrow, Gatwick and Luton airports. Organised by SCPS in protest against efficiency studies on manning levels. These are merely studies, not arbitrary cuts. Unions will be consulted in course of review. Increased resources do not lessen need to ensure efficiency and value for money.

Contact point: T J Sutton (HE1) 233 7160

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H17 LORD CHANCELLOR'S DEPARTMENT

Detailed questions to LCD

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
Cmnd 9428 adjusted for Budget measures etc	540	570	610	na
Survey changes	na	+20	+40	na
Departmental total	540*	590	650	700

* estimated outturn

(ii) Winter Supplementary Estimate providing £15,000 to establish Council for Licensed Conveyancers offset by savings elsewhere.

(iii) Increased provision in legal aid scheme accounts for most of rise in programme over Survey period.

Positive

(i) Plans allow for protection of individuals' rights by introduction of 24-hour Duty Solicitor Scheme, designed to balance increased police powers resulting from Police and Criminal Evidence Act 1984.

(ii) Plans allow for adequate growth in expenditure on administration of justice to handle continually increasing volumes of work.

Defensive

Growth of legal aid spending out of control? No. Increased provision reflects rising workload and cost of new 24-hour Duty Solicitor Scheme.

Contact point: P Russell (HE1) 233 8379

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H18 EDUCATION AND SCIENCE

Detailed questions to DES

Secretary of State for Education and Science will be making Statement to be issued as press release on 12 November.

[See also Capital/current and infrastructure spending (Brief G5)]

Factual

(i) £ million

		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure				
	Cmnd 9428 adjusted for Budget measures etc.	13,600	14,020	14,230	na
	Survey changes	na	+300	+170	na
	Departmental total	14,400 *	14,320	14,400	14,480
(b)	Exclusive of LA relevant expenditure				
	Survey changes	na	+90	+80	na
	Departmental total	3,450 *	3,510	3,590	3,660

* estimated outturn

(ii) Outturn in 1985-86 projected to exceed Cmnd 9428 plans by some £800 million, almost entirely because of local authority overspending.

(iii) Provision for DES (inclusive) in 1986-87 2 per cent above Cmnd 9428 (adjusted).

(iv) Local authority current provision for 1986-87 increased by £210 million but remains nearly £150 million below total of Local Education Authority budgets for 1985-86. £40 million a year included for midday supervision from 1986-87 (see (vi) below).

(v) Local authorities overspending on education capital expenditure. For 1986-87, Government has increased planned provision by £24 million and also reduced allocations (by £18 million from 1985-86) to bring actual spending towards new level of provision.

(vi) Teachers' pay (England and Wales): Plans include provision of £40 million a year for midday supervision from within additional sum of £1,250 million (over 4 years from 1986-87) which will be made available for teachers' pay if Government's conditions for reform met.

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Positive

(i) Science Budget increased by £15 million a year in 1986-87 and 1987-88. Used selectively on advice of Advisory Board for the Research Councils to nurture growth points in research, get better value from capital investments in major facilities and fund more alpha - graded university research proposals.

(ii) University funding enhanced by £9 million a year in 1986-87 and 1987-88, partly to provide for additional equipment to strengthen research base. Also to improve universities' computing network.

(iii) Resources transferred from other programmes for Engineering and Technology Programme to provide 5,000 extra places on high tech courses. Funding for programme beyond initial 3 year period now assured.

(iv) Increased provision to cover higher estimates of cost of student awards.

Defensive

(i) Local authorities can cut present excessive levels of current expenditure by savings eg on school meals and other non-teaching costs. Audit Commission estimates could save £50 million a year on cleaning secondary schools.

(ii) Government has made it clear universities will have to make economies to meet expenditure plans. But has still provided additional £9 million a year. [Prime Minister assured Association of University Teachers during 1983 Election that universities would receive level funding from 1984-85.]

(iii) Revised provision and allocations for local authority education spending should ensure plans closer to outturn in future.

(iv) Repair and maintenance (R&M) in schools: Totalled £295 million in 1983-84, 8 per cent real terms increase over 1982-83 and 15 per cent real over 1981-82. Government believes R&M should be given higher priority within available resources and plans allow for further real terms increase of 5 per cent in 1986-87. But decisions on R&M expenditure made by local authorities.

(v) 15 universities already have major building projects in progress or starting soon at total expected cost of £71 million (1985-86 prices).

(vi) Teachers' pay (England and Wales):

- "getting back to Houghton" would mean increase of 34 per cent equivalent to £1,800 million in full year

- original claim of 12½ per cent equivalent to £660 million in full year

- reduced claim of 8 per cent equivalent to £425 million in full year

- employers have offered 6.9 per cent in 1985-86, end-loaded to give 7.5 per cent by end of year, equivalent to £375 million in full year.

Teachers' aims unrealistic: not possible to restore every group to best ever relative position on pay.

Contact point: T J Burr (HE2) 233 8481

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H19 ARTS AND LIBRARIES

Detailed questions to OAL

Minister for the Arts will make announcement shortly [date not yet decided] on his programme generally and on Arts Council in particular. Subsequent announcements on other details to follow.

Factual

(i)

				£ million
	1985-86	1986-87	1987-88	1988-89
(a) Inclusive of LA relevant expenditure				
Cmnd 9428 adjusted for Budget measures etc	640	710	730	na
Survey changes (unrounded)*	na	20.2	17.3	na
Departmental total	700**	730	750	760
(b) Exclusive of LA relevant expenditure				
Survey changes (unrounded)*	na	3.8	5.0	na
Departmental total	300**	340	350	360

* rounding would produce misleading figures

** estimated outturn

(ii) Estimated outturn for 1985-86 some £70 million higher than plans in Cmnd 9428 as result of continuing overspending by local authorities.

(iii) Provision for OAL in 1986-87 is £20 million (3 per cent) higher than Cmnd 9428. £16½ million accounted for by increase in local authority current provision.

(iv) **Positive**

(i) Central government provision was 6 per cent higher in real terms in 1985-86 than in 1983-84.

(ii) Increased provision for both central government and local authority elements of Arts and Libraries programme. Government remains committed to 1983 Manifesto pledge to keep up level of support.

(iii) Provision increased to help Arts Council sustain funding for arts in period following GLC/MCC abolition.

(iv) Programme figures do not take account of Government's decision, announced in July and widely welcomed, to facilitate acceptance of works of arts etc in lieu of tax. Taking one year with another, expected to be worth £10 million or so a year. Funds will come from Reserve.

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H19

Defensive

(i) Arts are receiving increasing support from private sponsorship, partly thanks to Government's own efforts eg through Business Sponsorship Incentive Scheme.

(ii) Believe Government has met essence of Arts Council's case on post GLC/MCC abolition funding.

Contact point: S D H Sargent (HE2) 233 8494

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H20: HEALTH AND PERSONAL SOCIAL SERVICES (HPSS)

Detailed questions to DHSS

Secretary of State for Social Services will give Written Answer and DHSS will issue Press Notice on 12 November.

[See also Capital/current and infrastructure spending (Brief G5)]

£ million

		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure				
	Cmnd 9428 adjusted for Budget measures etc.	16,490	17,410	18,120	na
	Survey changes	na	+310	+330	na
	Departmental total	16,700*	17,720	18,450	19,140
(b)	Exclusive of LA relevant expenditure				
	Survey changes	na	+250	+300	na
	Departmental total	14,300*	15,200	15,920	16,610

* estimated outturn

Factual

(i) Spending in 1985-86 being increased in Winter Supplementaries by £80 million over Cmnd 9428. Principally reflects increased spending on Family Practitioner Services (FPS), especially on drugs bill.

(ii) Provision for HPSS in England in 1986-87 is £17,720 million, increase of £310 million on Cmnd 9428. Represents rise of over 6 per cent on spending in 1985-86.

(iii) Provision for 1987-88 is £18,450 million, £330 million above Cmnd 9428 and for 1988-89, £19,140 million.

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Positive

(i) Hospital and community health services (HCHS)

(a) (Institute of Health Services Management (IHSM)) British Medical Association (BMA) and Royal College of Nursing (RCN) have jointly urged Government to adopt 2 per cent real growth target to accommodate demographic change and medical advance.) To accommodate pay and price increases and demographic change, programme required to increase broadly 1 per cent a year in real terms (above GDP deflator). Plans allow real growth of:

1986-87	1987-88	per cent 1988-89
2.2	1.1	1.1

(b) Cost improvement programmes in HCHS should release £150 million in 1985-86 for service improvements. A bigger programme of cost improvements expected in 1986-87 following appointment of general managers at hospital level. Will release additional resources for patient services and cut waiting lists.

(c) Government has increased spending on NHS every year since 1979. Labour cut it in two consecutive years.

(d) Capital spending on NHS risen by 30 per cent in real terms since 1979. Labour cut it by 35 per cent.

(e) Waiting lists fallen since 1979. Rose by 250,000 under Labour.

(ii) Family practitioner services (FPS)

(a) Full provision made for expected costs to avoid risk of overrun - we have planned to meet forecast demand.

(b) Measures taken to ensure FPS are as cost-effective as possible.

(c) Green Paper on future of primary care to be published shortly.

Defensive

(i) Cash provision for HCHS in 1986-87, together with resources released through cost improvement programmes, enough to cover pay costs as well as to provide for effects of demographic change, medical advance and to meet service pressures.

(ii) Will Government fund all pay awards fully? (IHSM, BMA and RCN have urged Government to do so.)

- Full year effect of 1985 Review Body awards will have to be met by health authorities from cash available to them and expected efficiency savings.

- Provision sufficient to meet cost of reasonable future pay settlements. But the higher these are, the less available for service improvements.

(iii) Nurses' and doctors' pay: Nurses' earnings risen broadly 30 per cent in real terms since 1979; doctors' by broadly 20 per cent.

(iv) Capital spending on NHS

- increased by 30 per cent (real) since 1979. 150 hospital schemes, each costing over £2 million, being designed or under construction. 25 hospital schemes expected to be completed in 1985 and further 26 in 1986 (see G5).
- in 1986-87 and later years, NHS gross capital spending expected to be broadly maintained in real terms; lower net figures will be supplemented by higher proceeds expected from sale of land and surplus accommodation (although press reports of proceeds of £200-250 million are speculative).

(v) Drugs bill: Limited list expected to achieve forecast annual saving of £75 million; all possible economies being pursued, including making doctors aware of cost of prescribing.

(vi) Which charges will be raised and by how much (paragraph 2.27 of published Autumn Statement)? Matter for Secretary of State for Social Services. Exemptions from prescription and dental charges will remain but no responsible Government can rule out increases in patient charges.

Contact point: J G Peet (ST2) 233 3997

H21 SOCIAL SECURITY

Detailed questions to DHSS

DHSS issuing Press Notice on 12 November.

[See also National Insurance contributions (Brief E1), Social Security Review (E2)]

[NB. Nothing to be said about future of any benefit which could prejudice outcome of Social Security White Paper. General line to take is that precise details of reviews still under consideration and decisions will be announced later. Consult ST1 or DHSS if in doubt.]

Factual

(i)

£ million

	1985-86	1986-87	1987-88	1988-89
Cmnd 9428 adjusted for Budget measures etc	40,040	41,650	43,660	na
Survey changes	na	+1,250	+740	na
Departmental total	41,200*	42,900	44,400**	45,900**

* estimated outturn

** provisional, pending outcome of Social Security Review

(ii) No major policy changes announced in Autumn Statement. Decisions on Social Security Review still to be taken. Will be announced shortly by Secretary of State for Social Services in White Paper, followed by Bill. Will increase public expenditure in some areas and reduce in others. (See E2)

(iii) Overrun in 1985-86: largely due to fact that uprating of benefits in November 1985 much higher than assumed in Cmnd 9428 - 7 per cent in line with May 1985 RPI, instead of $4\frac{3}{4}$ per cent - and increase in numbers claiming means-tested and disability benefits.

(iv) Provision for 1987-88 and 1988-89 subject to adjustment in light of decisions still to be taken on Review.

(v) Unemployment assumptions: expenditure estimates assume numbers of unemployed claimants (GB excluding school leavers etc) 3.05 million in 1985-86 and 3 million in 1986-87 and later years. Assumptions, not forecasts. (See E1)

(vi) Figures reflect latest estimates of benefit expenditure, allowing for effect of revised economic assumptions. Main estimating changes flow from higher uprating in November 1985 than assumed in Cmnd 9428, partly offset by lower upratings in later years, and from increased take-up of supplementary benefit entitlements (see (iii) above).

(vii) 1985 Benefit uprating: As Secretary of State announced on 18 June (OR Vol 81 Col 187), benefits due to rise on 25 November 1985:

- pensions: up in line with 7 per cent increase in RPI in 12 months to May 1985
- supplementary benefit: scale rate up in line with 5.1 per cent increase in RPI less housing to May 1985
- housing benefit: single person's needs allowance up 5.8 per cent
- Child Benefit: up to £7 (just over 2 per cent). But poorer families protected - in some cases better off - because of real increases in FIS (new age related scale introduced; resulting increases range from 50p to £3 per child) and child additions to housing benefit (about £1 per child).

(viii) Benefit upratings in later years: Social Security Green Paper (Cmnd 9517) proposed move of uprating date to beginning of April:

- 1985 is last November uprating
- Interim uprating in July 1986 (earlier than under old arrangements) to provide smooth transition. Will be based on movement in RPI May 1985 to January 1986. On assumption that 5½ per cent RPI increase for 1985 Q4 (Table 1.4 of Autumn Statement) also holds for January 1986, July uprating would be of order of 1 per cent. Actual uprating will be announced in February.
- First of April upratings in April 1987. Will take account of RPI movement from January 1986 to autumn 1986: assumed to be about 2¼ per cent. (Provisional assumption, already mentioned publicly, is that September figure to be used.)
- For April 1988 uprating, prices assumed to increase by 3¼ per cent in year to September 1987.

Positive

(i) 1986-87 and 1987-88 provision considerably above that in Cmnd 9428. No massive reductions in programme, despite scare stories.

(ii) Social Security Review: Most comprehensive review since Beveridge. Extensive consultation, results of which being considered by Government. Conclusions will be announced in White Paper shortly (see also E2).

(iii) 1985 Benefit uprating, taking effect this month, based on 7 per cent increase in RPI, although inflation expected to be about 5½ per cent at end of 1985. Means retirement pension will have increased by over 96 per cent since November 1978, while RPI will have risen by about 87 per cent over same period; supplementary pension for a couple will have risen by 90 per cent, while relevant price index (RPI less housing) will have risen by about 78 per cent.

Defensive

(i) Review not a cuts exercise. Critical look at effectiveness of over £40 billion annual public spending.

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(ii) Child Benefit to be frozen at £7? Programme does allow for increases in Child Benefit but in future years, as in 1985 uprating, will need to balance money going to all mothers as Child Benefit against money going to low income families as Family Income Supplement or (post Review) as Family Credit. **NB Important to keep to precise form of words.** [If pressed on indexation: Actual rates of family benefits will be announced, with other benefits, when relevant RPI figures known.]

(iii) Will Child Benefit be uprated in July? Need January RPI figure before any benefit rates can be decided for July. Secretary of State for Social Services will make announcement about benefit rates in February (See also (ii) above).

(iv) Uprating in July 1986 only about 1 per cent? Uprating in July 1986 will be based on increase in RPI in 8 months to January 1986. Government Actuary asked to assume that $5\frac{1}{2}$ per cent increase in RPI forecast for 1986 Q4 also holds for January 1986. On that basis, July uprating would be of order of 1 per cent. But month by month path of RPI difficult to predict and actual uprating will not be announced until January RPI known. Uprating will reflect full, measured increase in prices, whatever that proves to be.

Contact point: M Gibson (ST1) 233 3169

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H22 CIVIL SUPERANNUATION

[See also Public expenditure in 1985-86 (Brief G1), Social Security (H21)]

Factual

(i)

	1985-86	1986-87	1987-88	£ million 1988-89
Cmnd 9428 adjusted for Budget measures etc	1,070	1,110	1,230	na
Survey changes	na	+70	+80	na
Departmental total*	1,050	1,180	1,310	1,400

* estimated outturn

(ii) Provision is mainly to pay civil service pensions awarded in earlier years, or for lump sums to those retiring in years covered.

(iii) No substantial changes in rules of scheme have occurred or are assumed for future. 1986 pensions increase uprating brought forward from November to July in line with treatment of national insurance pension (See H21). Subsequent uprating in April each year.

Positive

(i) Reductions in size of Civil Service will eventually reduce superannuation liabilities. Meanwhile must pay pensions which have accrued in past.

(ii) Although scheme is mainly non-contributory, pensions have been taken into account in settling pay.

Defensive

(i) No account taken of introduction of personal pensions under Government's proposals. But could have cost implications for scheme.

(ii) Manifesto declared that public sector pensions would continue to be index-linked on basis of realistic contributions. Sensible to defer decision on contributory scheme while Government's pensions proposals are still under discussion.

Contact point: B Lewis (Superannuation) 2083 592

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H23: SCOTLAND, WALES, NORTHERN IRELAND

Detailed questions to Scottish Office, Welsh Office or Northern Ireland Office, as appropriate.

Factual

(i) Figures for each territory given in attached tables. Figures subject to technical amendment before publication of 1986 Public Expenditure White Paper.

(ii) Figures relate to total expenditure block baseline for each territory (together with nationalised industry external finance and other items outside block budgets). Provision for individual services within blocks in future years will not be determined until respective Secretaries of State have made their allocations taking account of local factors.

(iii) Secretaries of State will be making separate announcements on public expenditure plans for their territories - probably before Christmas Recess.

(iv) Provision for Scottish Office overspend in 1985-86 has been taken in Winter Supplementary Estimate.

Positive

Percentage increases for each territory in 1986-87, compared with Cmnd 9428 plans:

	Scotland	Wales	N Ireland
1986-87	2.7	1.0	1.3
1987-88	1.0	0.3	1.9

Defensive

(i) Overspend in 1985-86 largely due to higher requirements for demand-led services.

(ii) Scottish total for 1986-87 includes additional capital needed to complete Torness power station more quickly than had previously been expected. This increase is net of savings in lower priority capital programmes.

(iii) Percentage increase for each territory not comparable because of differences in coverage among territorial programmes.

(iv) Allocations [If pressed: Allocation of resources within agreed expenditure totals is matter for respective Secretaries of State who will be making own statements in due course.]

Contact point: Scotland and Wales: A J Davis (ST3) 233 8045
N Ireland: L J Woodman (ST3) 233 7893

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SCOTTISH OFFICE

£ million

		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure & NI EFLs				
	Cmnd 9428 adjusted for Budget measures etc.	7,160	7,340	7,320	na
	Survey changes	na	+200	+70	na
	Departmental total	7,400*	7,540	7,390	7,420
(b)	Exclusive of LA relevant expenditure & NI EFLs				
	Survey changes	na	+30	+50	na
	Departmental total	4,200*	4,330	4,420	4,570

* estimated outturn

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H23

WELSH OFFICE

£ million

		1985-86	1986-87	1987-88	1988-89
(a)	Inclusive of LA relevant expenditure & NI EFLs				
	Cmnd 9428 adjusted for Budget measures etc	2,740	2,880	2,930	na
	Survey changes	na	+30	+10	na
	Departmental total	2,800*	2,910	2,940	3,000
(b)	Exclusive of LA relevant expenditure & NI EFLs				
	Survey changes	na	+20	+30	na
	Departmental total	1,650*	1,730	1,760	1,820

* estimated outturn

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NORTHERN IRELAND

	1985-86	1986-87	1987-88	1988-89
			£ million	
Inclusive of LA relevant expenditure & NI EFLs				
Cmnd 9428 adjusted for Budget measures etc.	4,250	4,460	4,600	na
Survey changes	na	+60	+90	na
Departmental total	4,300*	4,520	4,690	4,820

* estimated outturn

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H24 CHANCELLOR'S DEPARTMENTS

Customs and Excise issuing Press Notice on 12 November. Inland Revenue probably issuing Press Notice on 12 November.

Factual

(i)

	1985-86	1986-87	1987-88	1988-89
Cmnd 9428 adjusted for Budget measures etc	1,750	1,850	1,870	na
Survey changes	na	+160	+180	na
Department total	1,800*	2,010	2,050	2,070

* estimated outturn

Positive

(i) Additional provision for Revenue Departments partly to help combat drug-smuggling and fraud.

(ii) Manpower to combat drug-smuggling: 150 new posts announced October 1985 in addition to 50 new specialist investigators announced in June, plus 100 new posts and 60 temporary posts made permanent, announced in October 1984.

(iii) Both Revenue Departments are engaged in major computerisation programmes which in longer term will provide significant savings and improvements in efficiency.

Defensive

(i) Increased provision for Inland Revenue reflects higher expected workload (notably to cope with growing numbers of self-employed) and increased expenditure on computers.

(ii) Current Inland Revenue arrears reflect

- transitional problems arising from PAYE computerisation
- recruitment/retention difficulties in some areas
- increased workloads (stemming particularly from growth in numbers of self employed).

(iii) Increase in Customs and Excise expenditure: Increased provision mainly reflects stepping-up of fight against drug-smuggling (150 extra staff in 1986-87) and higher expected workload - more VAT-registered traders, more international trade and passenger movements.

(iv) Harassment of small businesses: Extra staff needed to cope with day-to-day work on increased number of self-employed and on small companies.

Contact point: Inland Revenue — M D R Haigh (FP) 233 5757
Customs and Excise — K M Romanski (FP) 233 5237

H25 NATIONALISED INDUSTRIES

Detailed questions to sponsor Departments.

[See also Fiscal policy (Brief D1), Privatisation (G3), Trade and Industry (H6), Energy (H7)]

Factual

(i) £ million

	1985-86 estimated outturn	1986-87	1987-88	1988-89
Ministry of Defence	10	-	-	-
Domestic Agriculture Fisheries and Food	10	10	10	10
DTI	470	120	70	-70
Dept Energy	200	-690	-1,140	-880
Dept Transport	1,050	1,090	1,080	990
Dept Environment	230	140	30	30
Scotland	260	240	0	-120
Wales	30	20	10	10
Other industries	0	-400	0	0
TOTAL INDUSTRIES	2,250	530	70	-30
Cmnd 9428 adjusted	1,320	80	-200	na
Survey changes	na	+450	+270	na

Individual nationalised industry External Financing Limits for 1986-87 shown in Table 2.3 of published Autumn Statement.

(ii) Increase in expected 1985-86 outturn compared to Cmnd 9428 results mainly from carry-over effects of coal strike on National Coal Board and Electricity Supply Industry. (For cost of coal strike, see H7.)

(iii) Progressive decrease in nationalised industries' expected external finance:

£ million

1985-86	1986-87	1987-88	1988-89
2,250	530	70	-30

Decrease reflects recovery from carry-over costs of coal strike and continuing improved performance of nationalised industries.

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(iv) External finance improves by £1.7 billion between 1985-86 (estimated outturn) and 1986-87 (plans). However, coal strike knock-on effects have added around £1 billion to 1985-86 estimated outturn (see H7). Over half remaining difference between 1985-86 and 1986-87 results from BSC moving into profitability as result of rapidly improving efficiency, and technical changes in calculation of BR's EFL (see Defensive (iv)).

(v) Provision for nationalised industry finance increased above Cmnd 9428 plans before Survey by:

£ million

1986-87	**1987-88**
350	180

constituted as follows (rounded):

	1986-87	**1987-88**
- technical (consequent on change in treatment of certain grants and GLC abolition)	-100	-100
- privatisation/abolition (BNOC, BA, NBC, BGC) adjustment to assumptions in Cmnd 9428	+60	+390
- increases (mainly Electricity (England & Wales), South of Scotland Electricity Board, NCB)	+520	-
- increases (individual industries not to be specified)	-	+200
- decreases (mainly Post Office, BR, British Steel London Regional Transport)	-130	-
- decreases (individual industries not to be specified)	-	-310

(vi) Because of impending privatisation, no EFL set for British Gas or British Airways for 1986-87. For planning purposes, figure of -£400 million is included in overall total for 1986-87. Subject to major uncertainties, particularly respective dates of sale. Once privatised, neither industry will impact on public expenditure.

(vii) British Gas, British Airways and British Airports Authority totally excluded from external finance figures from 1987-88 onwards in view of impending privatisation. National Bus Company may also be privatised in part or whole within same period and no external finance provision therefore made from 1987-88 onwards.

(viii) Overall, aggregate real rate of return has fluctuated around zero for several years. Well below rates in private sector - 9½ per cent in 1983 rising to 11½ per cent in 1984 at current replacement cost, according to companies' own accounts.

(ix) Forecast in Autumn Statement shows nationalised industries' prices rising by 5 per cent at annual rate in Q4 1986, compared with RPI increase of 3¾ per cent.

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Positive

(i) Plans for 1986-87 show decrease over 1985-86 plans and estimated 1985-86 outturn, even when adjusted for carry-over effects from coal strike. Shows Government attempts to encourage industries to reduce current costs and increase efficiency proving successful.

(ii) Nationalised industry financing requirements decline progressively over period 1986-87 to 1988-89. Such improvement is cause for congratulation not concern. Will benefit taxpayer and nation as whole.

(iii) Privatisation of British Gas major step in reducing size of public sector. Should make important contribution to Government aim of wider share ownership. Efficiency improvements will benefit consumer and shareholder alike.

(iv) Electricity prices:

	(real terms, percentage change)	
	Domestic	**Industrial**
Since last election	-8	-7
Labour	+27	+28

Domestic prices have gone up by only 6 per cent in last 3 years; under Labour up by 2 percentage points on average every 6 weeks.

(v) Domestic gas prices down 4 per cent in real terms since last election. In real terms, domestic gas about same price as in 1970.

Defensive

(i) External finance falls always predicted in future years - unrealistic. Annual Investment and Financing Review considers each nationalised industry in depth on basis of figures supplied by industries themselves. No reason to think that outcome not well-founded. Industries would have undershot 1984-85 EFLs, had it not been for coal strike.

(ii) Achievement of EFLs: Achieving plans for nationalised industries, like private sector, depends on keeping current costs, including wage costs, under control. Failure likely to mean either higher prices or less investment. EFLs not automatically increased to meet increases in current costs.

(iii) Loss of BGC's negative EFL: More than compensated for by sale proceeds in Survey period. Efficiency benefits to economy are what matters, not narrow PSBR calculations. (See also G3)

(iv) BR EFL: 1985-86 EFL of £918 million falls to £771 million in 1986-87. Expect BR to continue to improve efficiency but EFL fall misleading. Largely results from technical change in calculation of EFL post 1985-86 (local authority revenue grants no longer included in external finance). [Refer any further questions to D/Tp.]

(v) NCB EFL: 1986-87 EFL is provisional figure in advance of NCB's post-strike Business Plan which will be considered in appropriate depth later in 1985. [Refer any further questions to D/En.]

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(vi) Why worsening of aggregate D/En external finance in 1988-89? Mainly result of Electricity (England and Wales) external financing requirement path. Revised to allow for range of additional costs, notably additional investment expenditure. [Refer any further questions to D/En.]

(vii) Improvement of aggregate Scottish Office external finance by 1988-89. Implication for electricity prices? Expenditure on fixed assets will fall in 1988-89 as result of expected completion of Torness AGR. No reason to expect significant real price increases.

(viii) Nationalised industry investment plans for 1986-87 have still to be finalised in light of EFLs set. CBI reported in 1984 that nationalised industries were broadly content with present levels and pattern of investment. Not contradicted since (although in "Fabric of the Nation II," published 8 November, CBI - not industries - call for more investment in water and railways; see G5). Aggregate nationalised industry investment will continue to decline as more industries are privatised; "lost" investment will then take place in private sector.

(ix) Books balanced by expanding privatisation programme. See D1, G3.

(x) Nationalised industry price rises in 1986-87 still to be decided by industries themselves. Forecast in Autumn Statement therefore not based on firm plans.

(xi) Nationalised industry prices forecast to rise faster than general rate of inflation. True over year to 1986Q4. But forecast to rise slower than total RPI over year to 1985Q4 and also rose slower in year to 1984Q4. Over three years taken together total rise in nationalised industry prices expected to be same as total rise in prices in general:

	NI prices	Per cent Total RPI
Year to 1984Q4	4	4 ¾
Year to 1985Q4*	5	5 ½
Year to 1986Q4*	5	3 ¾

* forecast

(xii) Gas prices: Until privatisation, gas prices are for industry to decide. To be regulated after privatisation.

(xiii) Industrial gas prices rose 46 per cent in real terms from 1979 to 1985Q2: necessary to fund investment to enable gas supplies to be provided efficiently to industry in future. Rose 112 per cent in real terms under Labour (Q1 1974 to Q2 1979).

(xiv) Corresponding rises in prices of newspapers particularly critical of gas and electricity price increases.

April 1983 to September 1985 (percentage real terms changes)

Gas	-4		Sun	+7
Electricity	-7		Sunday Times	+12
			Times	+2
		[NB	Mirror	-½
			Daily Mail	-2
			Guardian	-4]

(xv) Government has increased considerably spending on help for poorer consumers of fuel. Heating additions cost some £400 million a year, about £140 million more in real terms than in 1978-79. Increasing wef November by 4.4 per cent in line with fuel and light index. Amount currently spent on heating additions will be included in resources to be made available under proposed Income Support scheme, following Social Security Review.

(xvi) Water charges: Water authorities still to take decisions on 1986-87 prices. [Refer any further questions to DOE].

Contact point: C Palmer (PE2) 233 5561

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H26 LOCAL AUTHORITY SPENDING AND GRANTS

Detailed questions to Department of Environment, Scottish Office or Welsh Office, as appropriate

[See also Public expenditure in 1986-87 to 1988-89 (Brief G2), Capital/current and infrastructure spending (G5), Transport (H10), Housing (H11), Value for money (H27)]

A. CURRENT EXPENDITURE

Factual

(i)

£ billion

LA relevant current expenditure (GB)	1985-86	1986-87	1987-88	1988-89
Cmnd 9428	25.5	26.0	26.3	na
Autumn Statement	26.5	26.7	26.7	26.7

(ii) Little new material on local authority (LA) current spending. Rate Support Grant (RSG) settlement for 1986-87, including Survey provision, announced in July (OR 25 July WA 697 (Scotland), 26 July Col 1316 (England), Col 1336 (Wales)). Departmental breakdown of provision not previously published but available to LA associations since September. For 1987-88 and 1988-89, figures repeat 1986-87 provision and do not contain new information.

(iii) LA budgets in 1985-86 were £1 billion over provision in Cmnd 9428 compared with £1.2 billion in 1984-85. After allowing for coal strike (almost entirely policing costs) and transfer of London Regional Transport, little change in expenditure in real terms between 1984-85 and 1985-86.

(iv) 1986-87 provision increased by £600 million to £26.7 billion. Cash freeze on 1985-86 budgets in England; slightly higher in Scotland and Wales. Targets and holdback abolished in England and Wales and replaced by tougher block grant pressures. Guidelines retained in Scotland.

(v) Overspending: In setting level of Reserve for 1986-87 , account has been taken of fact that some local authorities may spend more than provision.

(vi) Later years: For present purposes, provision for 1987-88 and 1988-89 has been set at same level as 1986-87. Figures will be reconsidered in 1986 Survey. In particular, decisions about appropriate level of provision for 1987-88 will be taken in July 1986 RSG settlement. Basis of later year figures has been taken into account in setting level of Reserves.

(vii) Green Paper on proposals for new system of LA finance will probably be published around turn of year. Not relevant to these numbers.

Positive

Figures for 1986-87 are clear signal of Government's determination to control LA expenditure. Although targets have gone, tougher grant pressures and rate-capping remain.

Defensive

(i) 1986-87 numbers pie-in-the-sky. Government believes they are attainable. But agrees long history of local authorities overspending on Survey provision and this has been taken into account in setting level of 1986-87 Reserve. However, LAs should consider their ratepayers. Very unwise to assume that Government will underwrite overspending: if authorities budget well over provision next spring, Government will have to consider tougher measures in 1987-88 RSG settlement.

(ii) Why no increases for later years? Large uncertainties in determining appropriate provision for local authority spending in future years. Government will decide on provision for 1987-88 in July 1986 when more information available. Meanwhile, taken into account in setting level of 1987-88 Reserve.

B. CAPITAL EXPENDITURE

Factual

(i) LA capital figures are given in paragraph 2.37 of Autumn Statement, drawing together net figures underlying departments' totals:

£ billion

LA capital (net, GB)	1985-86	1986-87	1987-88	1988-89
Cmnd 9428	3.1	3.5	3.7	na
Autumn Statement	3.7	3.7	3.9	4.0

(ii) Forecast outturn for 1985-86 about £3.7 billion: overspend against Cmnd 9428 plans of about £0.6 billion.

(iii) Gross spending is planned to remain broadly constant throughout Survey period at about £5.8 billion.

(iv) Adjustment of £40 million made for 1986-87 and later years to reflect change in Survey treatment of LA bus companies. (See also H10)

Positive

(i) Provision for net capital spending increased above Cmnd 9428 plans by some £200 million in each year to give rising trend of net provision. Gross planned spending of £5.8 billion represents large programme of capital works; significant boost to provision for infrastructure.

(ii) Provision increased, but control system being set to deliver spending at that level without overspending.

(iii) For additional provision for council house renovation, see H11.

Defensive

(i) Continuing problem of 1985-86 overspending, despite Government measures to tighten up control systems. System acknowledged to be flawed and review well advanced as part of local government finance studies. Government committed to produce new controls which are both effective and stable but cannot yet predict their form. Meanwhile allocations for 1986-87 to be set at level Government believes consistent with delivering and not overspending, expenditure plans.

(ii) Cuts on particular services: Spending in 1985-86 reflects both general overspending and local authorities' extensive freedom to decide own priorities. Government's aggregate plans for 1986-87 provide for increased levels of net spending over 1985-86 plans.

(iii) Announcement of allocations: Individual departments will announce allocations as part of their Autumn Statement announcements, or shortly after.

Contact points:	Current expenditure	A C S Allan (LG1) 233 8030
	Capital expenditure	Z Spencer (LG1) 233 5535

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H27 VALUE FOR MONEY

[See also Defence (Brief H1), Transport (H10) Urban Programme (H13)]

Factual

(i) Not precise term. Covers range from:

(a) setting overall spending plan, which can be afforded, to

(b) work of public servants using resources to achieve Ministers' objectives economically, efficiently and effectively in Civil Service and, with similar changes in management, in NHS and Non-Departmental Public Bodies (quangos).

(ii) Government has pursued better value for money throughout economy by

- deregulation
- privatisation
- competitive tendering
- policy reviews and efficiency scrutinies
- Financial Management Initiative (FMI) in Civil Service and similar management reforms in NHS and quangos.

(iii) Examples of better value for money in briefs in Section H include:

(a) MOD aiming for significant savings on procurement budget, through increased competition (see also H1);

(b) Urban Programme targetted to make best use of money. Chancellor announced value for money review of inner city assistance at NEDC on 5 November (see also H13).

Positive

(i) Around 80,000 of reduction in Civil Service numbers since 1979 attributable to general efficiency and streamlining.

(ii) Sharper objectives and priorities for public spending. Cmnd 9428 showed:

- 700 measures of output
- greater administrative efficiency (eg reduction year by year in costs of administering social security benefits)
- more cost-effective targetting (eg for regional development grants)

(iii) NHS developing general management following Griffiths inquiry. Expected to produce £150 million new efficiency savings 1985-86.

(iv) Local authorities accountable to ratepayers but Government set up Audit Commission. Its studies show opportunities for better value for money in purchasing, refuse collection, further education etc eg estimates education authorities could save £50 million a year on cleaning secondary schools.

(v) FMI brings together techniques eg competitive tendering, budgeting, policy evaluation and target-setting with better training. Encourages each Civil Service manager to seek better value for taxpayer.

Defensive

(i) Quality of service not disregarded. Reflected in eg extra fee-earning staff for driving tests (see H10).

(ii) Efficiency savings to pay for extra spending (eg CBI suggest savings of £6 billion can be found to finance £1 billion spending on roads): CBI overestimate potential savings. Always room to look for improvement in any organisation but cannot cut current spending drastically without affecting level of public services.

(iii) Government soft-pedalling competitive tendering? Government believes more can be done to contract out where private sector provides better value for money. Then Minister of State, Treasury, announced on 4 March (OR Vol 74 Col 748) requirement for all Departments to test market for specific services. Also:

- Departments have saved £20 million a year net on contracts let since 1979.

- NHS contracts have brought a cumulative saving of £28 million to date.

- Secretary of State for the Environment plans to introduce legislation requiring local authorities to extend competitive tendering to services (in addition to building work).

(iv) Efficiency "Rayner" scrutinies (Report by Efficiency Unit published 31 October said delays cost £300 million savings): Departments have implemented scrutinies saving £300 million a year - a cumulative total of £750 million to date. Will be followed up more urgently with timetables for action.

Contact point: R Willis (FM) 233 5278

COVERING CONFIDENTIAL

FROM: S J DAVIES

DATE: 12 NOVEMBER 1985

CHANCELLOR OF THE EXCHEQUER

Thanks.

cc: Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Evans
Mr Scholar
Mr Culpin
Miss O'Mara
Mr B Naisbitt

INDUSTRY ACT FORECAST OF INVESTMENT: DETAILS

I attach a table setting out the details of the Industry Act forecast of fixed investment. This is an update of the table originally considered for inclusion in the Autumn Statement. The manufacturing and North Sea figures both include some public investment, so that the total of private sector investment is not the sum of the lines above.

SJD

S J DAVIES

PS: When do I appear before the TCSC? And when do officials? And does the CST? And so on?

ASsda

Fixed Investment

	1983 Level (£ billion)	Per cent changes on a year earlier(5) 1984	1985	1986
Business:				
Manufacturing(1)	5.6	15	10	- 1
Other non-oil(1)(2)	12.5	16	7	4
Total non-oil	18.1	15	8	3
North Sea	2.6	14	- 7	12
Private Housing(3)(4)	9.0	5	3	3
Total Private Sector	28.8	12	6	4
Total Public Sector(2)(3)	13.1	0	- 2	3
Total fixed investment	41.9	8	4	3½
Total business (including oil)		15	6	4
Total housing(3)		2	0	3

(1) Figures for manufacturing include assets leased from finance lessors, figures for other non-oil investment exclude these assets.

(2) The other non-oil, total private sector and public investment figures are adjusted for the estimated effects of the privatisation of BT.

(3) The private housing figures exclude purchases of council houses, the public sector figures exclude receipts from sales of council houses.

(4) Including land and existing dwellings other than council houses.

(5) All figures except total fixed investment rounded to the nearest whole number.

CHANCELLOR OF THE EXCHEQUER

C

I think there's one outstanding point on the TCSC.

The Chief Secretary has not been invited to appear.

D
19/11

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

Thanks. Mr Higgins tells me the Committee have OK'd the ~~[illegible]~~ [illegible] postponement.

PS. ~~Does~~ the CST appear on Weds?

1. Phil
2. Chancellor

TCSC

Michael Scholar has re-negotiated the time of your TCSC appearance which will now be at 4.30pm on Tuesday 26 November

Officials will be appearing at 4.30pm on Monday 18 November - Sir T. Burns, Mr Cassell, Mr Evans, Mr Turnbull and Mr Fitchew or Mr Scholar.

Mr Scholar will let you have a minute tonight answering the remainder of your questions and providing a draft reply to Mr Higgins letter of 12 November (attached)

D
14/11

Mr Scholar

I understand that you are raising with the TCSC about the 'unsuitability' of this date. Can I ask you to let me know the outcome please.

Debbie Lester
13/11

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

12 November 1985

Rt Hon N Lawson MP
House of Commons

Dear Chancellor,

As you probably know, the Committee will shortly begin an Inquiry into the 1985 Autumn Statement. Treasury officials have been invited to give evidence on Monday 18 November, and the Committee would be extremely grateful if you yourself would give evidence to them the following Monday, 25 November at 4.30 pm in Committee Room 15.

The Committee hope that their Report on the Autumn Statement can be published towards the end of the week beginning 2 December.

As ever,

Terence

RT HON TERENCE L HIGGINS
Chairman

1-20

FROM: R PRATT
DATE: 15 NOVEMBER 1985

SIR TERENCE BURNS
MR CASSELL
MR EVANS
MR TURNBULL
MR FITCHEW

Ovo taken

AUTUMN STATEMENT: TCSC ENQUIRY

.... I attach a list of the questions that were offered to me by the Clerk last night. The questions on the forecast are still to come.

2. Since there seem to be no questions on the international scene, or on G5, the Baker initiative etc, this would seem to point to Mr Scholar as being the fifth member of the team rather than Mr Fitchew.

[signature]

pp RICHARD PRATT

Ch/

Terry has come back from Paris early to prepare himself for this. He'd like to discuss his answers with you, when he's thought them out. We've got him down for 3pm this afternoon.

RE

15/11

ANNEX A

TCSC AUTUMN STATEMENT ENQUIRY

The Clerk has indicated that he will be briefing the Committee to ask the following questions.

(i) **Budgetary Reform**

- Why does the Autumn Statement contain no revenue projections?
- Why does the Autumn Statement contain no forecast of the fiscal adjustment for 1986-87?
- Have there been any changes in the procedure for determining priorities in the PES? (This is a reference to the TCSC's comment last year that the PES process did not provide for a proper assessment of priorities)

(ii) **Public Expenditure and the Planning Total**

- In the current year there is forecast to be overspending on programmes of about £5 billion. Had it not been for the Reserve, the planning total would have been overspent. What is the reason for the overspend on programmes?
- What degree of confidence does the Treasury have in the forecast of 1985-86 outturn?
- The Autumn Statement and the Chancellor's oral statement stressed that public expenditure was being held constant in real terms. Is not this emphasis on real terms in conflict with the Government's previous determination to plan in cash and hence absorb the effects of increased inflation?
- What can be said, in respect of future plans, about the split between capital and current expenditure; about manpower costs; and pay?

(iii) **The Policy Mix and the Exchange Rate**

- Does not the Autumn Statement herald a looser fiscal policy?
- Is the Government proposing to take any action to offset the higher PSBR forecast in 1985-86?
- Does not the increase in asset sales for future years require a corresponding decrease in the PSBR?
- What is likely to be the effect of the forecast fall in oil prices on the exchange rate?

(iv) **Monetary Policy**

- What is going to replace £M3?
- Does the Government expect future asset sales to have a similar effect on £M3 and other monetary aggregates, as did the British Telecom sale last year? If so, what do they propose to do about it?
- What are the Government's present views about the EMS?

(v) **Forecast**

The Clerk promised to forward details of questions on the forecast on Friday 15 November.

1-20

c: RL

FROM: R PRATT
DATE: 15 NOVEMBER 1985

SIR TERENCE BURNS

Mr Cassell
Mr Evans
Mr Turnbull
Mr Odling-Smee
Mr Fitchew

AUTUMN STATEMENT: TCSC ENQUIRY

The TCSC have now supplied me with the questions on the forecast. I have therefore included these questions in the full list, which is now attached.

2. You will see that one of the questions about the effect on the Treasury model of the downgrading of £M3 has been supplied by the Warwick Bureau. I understand that there are a number of other technical questions about the model which the Warwick Bureau have put. However, the view of the TCSC Clerk is that they are too technical for the Committee to ask. The TCSC Clerk will therefore probably submit them as written questions.

3. In view of this, do you agree that it is unnecessary to ask Mr Odling-Smee to join the team on Monday?

Richard Pratt

RICHARD PRATT

*

2 Important

1. NOTHING must be said to give any indication of what the 1986 Budget judgement will be (see iii), beyond the fact that it will be prudent & responsible & that all factors will be fully taken into account.

2. There must be no leakage on the approach to forward revenue projections.

N.

ANNEX A

TCSC AUTUMN STATEMENT ENQUIRY

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- What are the Government's present views about the EMS?

(v) **Forecast**

- What would be the effect on forecast output and inflation if commodity prices (and oil prices) do not weaken as expected?
- What assumptions have been made about the movement of commodity prices and oil (ie more specific detail than given in the Autumn Statement)?
- What will be the effect of the loss of competitiveness, on UK exports and on import penetration?
- What are the Treasury's forecasts for domestic costs - particularly wages, unit labour costs etc?
- Are not the figures for business investment and for public investment too optimistic?
- What is the cost of the coal strike this year and in future years?
- What assumption has been made about the fiscal adjustment for next year in constructing the forecast?
- What effect does the downgrading of £M3 as a target have on the figures produced by the Treasury model (this is a question by Warwick Bureau)?

VT75

CONFIDENTIAL

1. ~~Rachel~~
2. RWP

FROM: A W KUCZYS
DATE: 18 November 1985

SIR T BURNS

cc Mr Cassell
Mr Evans
Mr Turnbull
Mr Odling-Smee
Mr Fitchew
Mr Pratt

AUTUMN STATEMENT: TCSC ENQUIRY

This is just to confirm the two points (which I gave you by phone) which the Chancellor had on Mr Pratt's note of 15 November.

2. First, nothing must be said to give any indication of what the 1986 Budget judgment will be (Mr Pratt's (iii) in the annex to his note), beyond the fact that it will be prudent and responsible and that all factors will be fully taken into account.

3. Second, there must be no weakening on the refusal to provide revenue projections.

AWK

A W KUCZYS

1-5

psf

bf 21/11

FROM: R PRATT
DATE: 19 NOVEMBER 1985

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Sir Geoffrey Littler
Mr Cassell
Mr Anson
Mr Lavelle
Mr Turnbull
Mr Evans
Mr Fitchew
Mr Scholar
Mr Davies
Mr Cropper
Mr Lord

Thanks. Most of these questions will, I suspect, come up again when I appear. N.

Ch.
In view of X, we'll fix up a briefing meeting on Friday for your appearance. Apart from Pliatzky's evidence of Jenkin's paranoia, this sounds a very boring session.
RL
19/11

AUTUMN STATEMENT: TCSC ENQUIRY

... I attach a note of the main points raised at yesterday's session with the TCSC.

2. I understand that the Committee are expecting us to produce two notes:

(a) on the increase in the housing programme in real terms;

(b) on whether the distribution of the extra £4 billion that has been allocated to programmes as a result of the 1985 Survey represents a shift in the Government's priorities away from Health.

Mr Higgins did, at one point, ask for a note on the cost of the coal strike. But the Clerk has agreed with me that the point was adequately covered by officials' answers yesterday.

3. Mr Higgins also said that he would be forwarding technical questions on the model. However, these have yet to arrive.

4. The Clerk has promised me a copy of the transcript by lunchtime tomorrow (Wednesday, 20 November). He also undertook to let me have advance notice of the questions the Committee are likely to put to you by close on Thursday 21 November (or at the very latest, first thing on Friday 22 November).

X

Richard Pratt

RICHARD PRATT

TCSC ENQUIRY INTO THE AUTUMN STATEMENT:
OFFICIALS' EVIDENCE, MONDAY 18 NOVEMBER

At the beginning of the session only Mr Higgins, Mr Howell and Mr Freeman were present. Mr Beaumont-Dark, Mr Sedgemore and Mr Budgen joined the session later.

Fiscal adjustment/revenue forecasts

2. Mr Higgins said that the Committee would pursue the question of the absence of fiscal adjustment forecast with the Chancellor. However, he did query the absence of revenue forecasts; asserted that this undermined the line that "revenue determines expenditure"; asked whether internal revenue forecasts had been prepared and (when it was confirmed that they were) asked precisely when. Mr Higgins also questioned whether the fiscal adjustment forecast (which had not been published) had been taken into account in the forecast of the likely rise in real personal disposable income. Subsequently, Mr Sedgemore linked the lack of a fiscal adjustment with the absence of revenue forecasts and of any update of the MTFS and asked why there had been a "cover-up".

3. In response to these questions, officials maintained the line that the absence of the fiscal adjustment was in order to avoid speculation; and that revenue forecasts were removed in order to make it impossible to derive a fiscal adjustment forecast. The principle that "revenue determines expenditure" held true over the medium term, the Chancellor's evidence earlier in the year itself referring back to the Green Paper on Long Term Trends was quoted.

MTFS

4. Mr Beaumont-Dark asserted, with approval, that the Treasury was softening in its approach to public expenditure and in its general fiscal stance. He asked whether this was a response to the success in reducing inflation. Mr Higgins asserted that if the Government had followed the original MTFS, the PSBR would be lower now as a proportion of GDP, than it actually is. He suggested that this showed the Government was following a looser fiscal policy. Mr Sedgemore questioned why the PSBR for 1986-87 was not to be reduced in order to take account of asset sales.

5. Mr Higgins also asserted that the brief mention of monetary conditions in the Autumn Statement demonstrated a change of emphasis. Mr Budgen argued that the decline in velocity of £M3 was entirely due to high real interest rates.

6. In response to these points, officials asserted that the public expenditure round has been as rigorous in previous years; that there had been no change in the Government's fiscal and monetary stance and that the MTFS would be reviewed before the next Budget taking account of asset sales and other factors.

Public expenditure

7. Mr Higgins asked how the Treasury expected to be able to keep within the planning total in the current year, if the Reserve was committed half way through the year. Mr Freeman asked why the Reserve had been necessary in the current year and on what it had been spent.

8. Officials replied that although there was some extra spending on social security as a result of higher uprating than forecast, but that the main factors were coal strike related (about £$1\frac{1}{4}$ billion) and local authority overspending (£$1\frac{3}{4}$ billion-£2 billion). The coal strike figure was additional to expenditure in 1984-85. Post-coal strike expenditure had been forecast (but no figure published) earlier in the year.

9. Mr Freeman asked whether the emphasis on public expenditure being flat in real terms undermined the Government's commitment to plan in cash. Mr Howell asked if the switch to GGE as the denominator in Table 2.1 (public expenditure as a percentage of GDP) concealed something. Officials denied any weakening in the principle of cash planning and argued that Table 2.1 had simply been brought into line with similar tables in other publications.

10. Mr Sedgemore asked whether Housing expenditure had increased in real terms. Officials confirmed this. He asserted that the distribution of the extra £4 billion that had been allocated to programmes during the 1985 Survey demonstrated that Health had been given a lower priority than had been implied by the Public Expenditure White Paper figures. Officials denied that Health had been given a lower priority and questioned the relevance of Mr Sedgemore's arithmetic that had led to this conclusion.

Forecast

11. Mr Freeman asked for further details of the assumptions and forecasts concerning commodity prices, oil prices, the exchange rate, exports, imports and investment. Mr Higgins asked about earnings growth and productivity. Officials gave qualitative answers and refused to be drawn beyond what was said in the Autumn Statement.

International

12. Mr Beaumont-Dark asserted that the UK, having pursued a policy of maintaining sound finance, was being hit by the failure of the United States to do the same. This was affecting exchange rates and interest rates. The US profligacy was also exacerbating the problem of Third World debt. Here again, the exposure of UK banks was less than that of US banks. Despite all this, the UK had felt obliged to help the US through the Plaza agreement. Sir Terence Burns responded that the UK had frequently expressed its concern about the United States' deficit; and supported the Plaza agreement since it was in the interests of the UK and other European countries that protectionist pressures in the US should be resisted. Nevertheless, the UK was still anxious to see more steps taken to reduce the US budget deficit.