

PO-CH/NL/0120.

PART E

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0120



PART E

BUDGET 1988 SCORECARD
AND OVERVIEW

/NL/0120

-CH

PO

PART E

DD's 25 years NA 3 1/12/95.

26-10-88

0120

CC

PART

F



FROM: A C S ALLAN
DATE: 18 October 1988

MR TURNBULL

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Luce
Mr Odling-Smee
Mr Odling-Smee
Mrs Butler
Mr Gieve
Mr MacAuslan
Mr Mowl
Mr Richardson
Miss Walker

SETTLING THE REMAINING PROGRAMMES

Just in case you do need to circulate a position paper to Star Chamber quickly, it may help if I record the following ^{comments} which the Chancellor had on the draft attached to your minute of 14 October:

- (i) in paragraph 1(ii) amend the sentence to read "... continues to decline steadily as a percentage of GDP over the three survey years ...";
- (ii) amend paragraph 2 to read "... but given the economic situation and market sensitivities we should certainly aim to stay within the existing planning total for 1989-90, while for 1990-91, the second year of the survey, we need to hold the increase in the planning total to very much less than the £4½ billion we announced for the comparable year after the 1987 Survey."

A handwritten signature in dark ink, appearing to read 'ACSA'.

A C S ALLAN

SCORECARD

COPY NO: 3 OF: 23

FROM: J MACAUSLAN

DATE: 19 OCTOBER 1988

CHIEF SECRETARY +1

cc: Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Turnbull
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mrs Butler
Mr Richardson
Mr Hansford
Mr Mowl
Mr Gieve
Miss Walker
Mr Call
Mr Tyrie

EFFECT OF AGREED REVISIONS TO ECONOMIC ASSUMPTIONS

Table 1 below is a revised version of the Table I sent up last night. It shows our best guess as to the effects of the economic assumptions agreed at the meeting held by the Chancellor this morning.

2. The economic assumptions are as in Table 2. I have assumed, for the moment, unemployment at 1.9 million.

3. The assumptions will go out to departments as soon as possible. In the case of DSS, that means as soon as the remaining issues are resolved. Departments will then calculate the expenditure implications. In the meantime, we have made what guesses we can using ready reckoners. There is, I am afraid, quite a margin of error around our guesses.

4. In the case of the GDP deflator, there is a margin of error around the estimate of the effect on Housing Benefit; but, more importantly, it is not yet clear to what extent we will reopen settlements already reached. DM, ST1, HE2, and AEF will be offering advice in the next day about how to handle MOD, DH, DES,

and ODA respectively. I assume that we will not need to give MOD any compensation. The £120 million for health in Table 1 implies only £100 million for DH, with the remaining £20 million being territorial consequences.

5. The figures for the territories in block 3 of Table 1 assume that you concede:

<u>Territory</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Wales	85	72	65
Scotland	85	72	65
Northern Ireland	40	35	30

The figures in Annex B to Alan White's submission of yesterday are more optimistic by £25 million a year. The allowance of £50 million for DTp includes territorial consequences, and therefore implies a concession to DTp itself of only about £40 million a year. The social security offset assumes a concession on family credit.

6. There remains a small addition to the planning total in 1989-90. Even if all the settlements turned out exactly as in Table 1, there would still be a margin of error of a few 10s of million of £s around this figure. But there is scope to reduce it further if necessary. We might do better on the territories or on DTp. We could reduce the first year figure for our net contribution to the EC. Or we could cut £100 million by reducing the unemployment assumption to 1.85 million; or £150 million by declaring the Rover receipt from BAe.

7. The addition to the planning total in 1990-91 looks like being within £3.5 billion. The margin for error on this figure is of course even bigger.

8. Table 3 shows the implications of these figures for growth rates and the GGE ratios.

The Table shows a fall in the planning total and in GGE in real terms between 1987-88 and 1988-89. It also shows that the growth of GGE in real terms between 1987-88 and 1991-92 averages $1\frac{1}{4}$ per cent - the same figure as projected in the last White Paper for the period from 1986-87 to 1990-91. The real growth rate of the planning total over the Survey period is 3.7 per cent, well in excess of the growth of the economy. But the growth of GGE over the same period is 1.8 per cent.

17.6/17.1/
16/15.8

10. The ratios show up the problems of success in holding the 1989-90 planning total. I have used debt interest figures derived by assuming a PSDR of £10 billion in 1988-89 and 1989-90, and zero thereafter. On these figures the ratios would round to $39\frac{1}{4}/39\frac{1}{4}/39$ per cent, or even to $39\frac{1}{4}$ per cent in all years.

11. It would be nice to have a bigger fall over the Survey period. That means:

(a) it would be helpful if the 1989-90 figure rounded to $39\frac{1}{2}$ per cent. That requires some combination of changes to the money GDP figure (eg "rounding" down to £504 billion) and of changes to the debt interest or other national accounts adjustments figures.

(b) we cannot afford to see a decline between 1989-90 and 1991-92 in the debt interest figures of less than about the £1.3 billion shown in this Table.

12. But a more thorough submission on the debt interest problem will come up in the next few days.

Jm

J MACAUSLAN

POSSIBLE CHANGES TO SCORECARD

1 Scorecard:

additions to

planning total + 110 + 2850 [+ 7030]

2 Economic assumptions

GDP deflator

[yesterday quoted 70, 75, 80 for DES/ODA/DSS]

DES	+ 5 = 30	+ 5 = 45	+ 5 = 50
ODA	-	+ 15	+ 15
DSS	+ 25	+ 25	+ 30
DH (profile in earlier note was 100, 110, 120 & difference 13 territories)	+ 120	+ 130	+ 140

Rpi +1% 9/89

- + 550 + 770

Rossi +1½% 9/89, +1% 9/90

Interest rates

+ 120 + 10 -

Unemployment 1.9m

- 220 - 230 - 240

+ 50 + 505 + 720

3 Other programme changes

yesterday's profile was -75 -40 +25

Territories

- 70 - 70 - 35

DTP etc

+ 50 + 50 + 50

CB/UB

- 195 - 75 - 35

Soc Sec offset

+ 90 + 95 + 100

↑ details in folder behind - 125

- + 80

TOTAL ADDITION TO

PLANNING TOTAL

+ 35 +3,355 [+7,830]

4 Other possible

programme changes

BAe/Rover

- 150

OCTOBER ECONOMIC ASSUMPTIONS

	<u>9/88</u>	<u>9/89</u>	<u>9/90</u>	
Rpi	5.9	5½	4	
Rossi	4.7	5	4	
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
GDP Deflator	6¼	5	3½	3
Money GDP	469	505	535	565
Unemployment	2.1	1.9	1.9	1.9
3 month interbank	10¼	11	9½	9

SECRET

TABLE 3

SURVEY OUTCOME: MAIN CASE

new using correct 88-9 columns?

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (£m)		40	3,355	7,830
Real growth (%) over previous year	- 0.6	3.5	3.8	3.7
over 1987-88				2.6
1988-89				3.7

GGE

As % of GDP	39.87	39.3	39.2	39.13
rounding to	40/39½	39½	39½	39½/39
Real growth (%) over previous year	0.4	1.1	2.1	2.4
over 1987-88				1.3
over 1988-89				1.9

Assumptions

(£ billion)

Other national accounts adjustments	9.6	9.3	9.2	8.7
Debt interest	17.6	17.1	16	15.8
Reserves		3.5	7.0	10.5

Prof

SCORECARD

COPY NO 1 OF 18 COPIES

From: J ODLING-SMEE

21st October 1988

CHANCELLOR OF THE EXCHEQUER

Thank you. I agree with comments. Bull as ASDR. ratios for winter. winter plan. new PX. Also wh. pts on spec for pings & push on. CST will have virus here (ask him) but look for no play in abstracts. ms.

- cc Chief Secretary
- Sir Peter Middleton
- Mr Anson
- Sir Terence Burns
- Mr Monck
- Mr Phillips
- Mr Luce
- Mr Sedgwick
- Mr Turnbull
- Mr Gieve
- Mr MacAuslan
- Mr Pickford
- Miss Simpson
- Mr Call
- Mr Tyrie

AUTUMN STATEMENT: ORAL STATEMENT

I attach the first draft of your oral statement.

- It follows the same structure as last year's. It includes a paragraph on funding with a reference to the reverse gilt auction.
- In 1986 when your oral statement was on the same day as Cabinet, you justified it in terms of the fact that the House would not be sitting on the following Tuesday (Hansard extract attached). I have not attempted to offer a justification this time because I think you will probably be able to get away without it.

- This arrived v. late, & Alex will be looking at it on Monday.
- On PX, Moira has a number of important points. The basic structure is probably OK (same as last year), but the good news is much underplayed. *Pos*
- On NICs, they've replayed the tried & trusted format. **J ODLING-SMEE**
- On the forecast, no doubt done v. hastily, but we basically need to start again. Is it best if Alex & I do this, once the Supply Day is out of the way? *Ygr*

AH

AUTUMN STATEMENT: ORAL STATEMENT

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

2. Cabinet today agreed the Government's public expenditure plans for the next three years. I am therefore able to make my traditional Autumn Statement to the House this afternoon covering three elements: the Government's outline public expenditure plans for the next three years and the expected outturn for this year; proposals for national insurance contributions next year; and the forecast of economic prospects for 1989 required by the 1975 Industry Act.

3. The main public expenditure figures together with the full text of the economic forecast and the rest of the information customarily published with this Statement will be available from the Vote Office as soon as I have sat down. They will also appear in the printed Autumn Statement which will be published next Tuesday.

Public Finances 1988-89

4. I turn first to the expected outturn for the current financial year, 1988-89.

5. The public expenditure planning total now looks likely to amount to £[154] billion, or about £[3] billion less than was allowed for in ^{the} last year's Public Expenditure White Paper. About half the shortfall is accounted for by higher receipts, from the

privatisation programme and [by] local authorities and new towns. The balance of the shortfall is attributable to lower spending on programmes, particularly social security, reflecting the sharp fall in unemployment.

6. General government expenditure is also likely to be less than expected in the White Paper. Together with the strong growth of the economy this year, this means that the ratio of expenditure excluding privatisation proceeds to gross domestic product will be below 40 per cent for the first time in over two decades. It is down nearly 7 percentage points since 1982-83, the largest and longest sustained fall since the wartime economy was unwound. This Government has firmly reversed what once seemed like the irresistible growth of the state's spending of the public's money.

7.29 3/4

9-9-?

SAK? When?

seemingly

share of the nation's income spent by the

revenue?

7. On the receipts side, total government revenues are likely to exceed the Budget forecast by almost £4 billion. This is primarily the result of higher than forecast economic growth. VAT and income tax have in particular been more buoyant than expected.

8. At the time of the Budget I set a Public Sector Debt Repayment - or PSDR - for 1988-89 of £3 billion, equivalent to $\frac{3}{4}$ per cent of GDP. As a result of higher government revenues and lower than expected public expenditure I now expect the PSDR this year to be £10 billion, equivalent to $2\frac{1}{2}$ per cent of GDP. Even when [it is adjusted to remove] the effects of privatisation proceeds, there is likely to be a substantial budget surplus of £4 billion, making this year only the second since the beginning of the 1950s when an equivalent surplus has been achieved.

set to one side

V. odd. 1969-70 surplus was (a) only $\frac{1}{4}$ per cent of GDP, (b) isolated.

9. Some people have been saying that developments in the economy this year show that the tax reductions I announced in my Budget were too great. [I find this view impossible to understand in the light of] the very high levels of tax receipts and debt repayment I am expecting for the year as a whole. *give the lie to these claims*

10. A PSDR of the size now expected has clear implications for the authorities' operations in the gilts market. I remain firmly committed to funding fully the net total of maturing debt, the public sector borrowing requirement and any underlying change in our foreign exchange reserves, as I made clear at Budget time. But when the PSBR is in fact a very large PSDR, we no longer have to sell gilts. We actually need to buy them in - and on a substantial scale. [To assist in this process of redeeming debt, the Bank of England will be adding a new weapon to their funding armoury - the reverse gilt auction - for use if necessary. They will be announcing details in due course.] *make net sales of*

Expenditure Plans 1989-90 to 1991-92

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

12. In July, Cabinet set itself the objective of keeping as close as possible to the existing planning totals and of ensuring that public spending as a proportion of national income continued to fall from the level already reached. The plans that I am about to announce *meet that* ~~secure~~ those objectives. *(would continue)*

*need to
make more
of this*

13. The planning total for 1989-90 will be £[167] billion, that is unchanged from the previous plans. The planning totals for 1990-91 will be £[179½] billion, an increase of £[3½] billion on last year's plans and that for 1991-92 will be set at £[191½] billion.

Add something about like experience this year as justification for unchanged profile?

14. These totals include the same profile for the Reserves as in the previous plans, £3½ billion for the first year, rising to £10½ billion in the third. The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

[Since 1985-89]

1985-89

15. Between 1978-79 and 1987-88 public spending has grown by 1.6 per cent a year, *in real terms* compared with 2.9 per cent in the decade before that. In the succeeding ³four years, that is the current year plus the three survey years, public spending will grow in real terms by 1½ per cent, well within the prospective growth of the economy as a whole. [This maintains the steady rate of growth projected in the last White Paper.] In consequence public spending will continue to decline as a proportion of national income, reaching 39 per cent by 1991-92, the lowest ^{figure} since the mid-1960s.

*turn round?
Decade 1
Decade 2
Survey yrs*

*1/2 has
been
seen
in
the
type
done
in
compar-
frankly
50%*

16. Despite holding total spending for next year within the previously announced totals, the government has been able to provide substantial additional resources for a number of priority programmes. In each case the figures I am about to give represent increases over the plans published in the last Public Expenditure White Paper.

SECRET AND PERSONAL

17. First, health. An extra £1.2 billion is being provided for the National Health Service in England, ^{alone?} in 1989-90 and an extra £1.4 billion in the following year. On top of that, the Health Service will benefit from an extra £150 million in 1989-90 and £300 million in the following year from a new round of cost improvement programmes; and an extra £100 million a year from sales of surplus land. In addition, ^{has recommended} following a report from the Government Actuary, ^{in a report} which is being published today, ^{that} employers' superannuation contributions ^{should} will be reduced, which will save the Health Service nearly £300 million a year. Taken together, these sums of £1½ billion in 1989-90 and over £2 billion in the following year represent the largest increase in resources ever made available to the Health Service. *[can we quote a UK figure at all?]*

18. Second, law and order. An extra £285 million has been made available in 1989-90 and £310 million in 1990-91, principally for a further expansion in the prison building programme. Between ^{8 9} [1987-88] ^{now} and 1991-92 ^{a further} this will provide over 3,000 extra places. ^{on top of by 1992.} Provision for local authority spending on the police has also been increased by over £250 million.

19. Third, housing. Gross provision for housing investment is being increased by over £400 million a year. Total public sector investment, mostly on renovation and new building, ^{is set to} [will now be] running at about £4¼ billion a year.

20. Fourth, transport. An extra £[225] million is being made available next year for motorway and trunk road construction and repair and for bridge strengthening and an extra £[280] million in the following year.

21. Fifth, spending on defence is to be increased by £100 million in 1989-90 and £500 million in 1990-91.

22. Sixth, social security. Large increases are expected in spending on benefits, particularly for the disabled, and special assistance for poorer families is being significantly improved. *needs improve* These increases are partly offset by the fall in unemployment and the decision not to uprate child benefit, leaving the social security programme broadly unchanged in 1989-90 but around [£1.2 billion] higher than planned in 1990-91.

In this year's P — E — S — , the Govt has again devoted particular attention to

23. (As announced last year, the Government has examined) its priorities for science and technology (in the context of this year's Public Expenditure Survey). *er* In areas of low priority, including near market R&D, public support will be reduced. There will be savings over the Survey period as a whole within the Energy, Agriculture and Trade & Industry programmes. *These savings* There will, however, be *more than offset by* (substantially larger) additions to DES spending on science and technology, amounting to at least £120 million a year. Among other things this will allow an increase of ¹⁸20 per cent in expenditure on basic science between this year and next.

24. [Taking account of other programmes as well as those I have mentioned,] *Overall* additions to *total* planned capital spending, for the public sector as a whole are likely to amount to some £ billion next year. [Sentences on main increases.] *[Do we need more on capital, given G Brown etc?]*

25. That the Government has been able to strengthen its priority programmes while holding to baseline in the first year is [in large measure,] a reflection of the success of its policies. The large

SECRET AND PERSONAL

reduction in unemployment has made possible savings on social security and also on employment and training measures; the success of the Right to Buy policy and the Government's efforts to encourage local authorities to sell surplus assets have ^{generated} mobilised substantial additional capital receipts; its efforts to bring greater financial discipline to the Common Agricultural Policy have ^{brought} helped produce savings; the improved trading results of the nationalised industries have reduced their call on the Exchequer. Finally, the achievement of a large budgetary surplus is reducing the cost of servicing the national debt. All this has made room for spending on other programmes.

Make more of this?

priority

26. The details of these and other changes are provided in the material in the Vote Office. ^{More details} ^{published} Further information will be contained in the printed Autumn Statement next week. As indicated in the White Paper on "Financial Reporting to Parliament" (Cm 375) the section on public spending in the printed Autumn Statement will be expanded so that it includes nearly all the information on the general picture ^{not paid} previously found in Chapter 1 of the Public Expenditure White Paper. The role of the latter, which will appear early in the New Year, will be principally to elaborate the information on departmental programmes. Rather than one large volume covering all departments, it is proposed to make each departmental chapter available separately. This will not only provide a stepping stone to the eventual production of departmental reports, a development which a number of Select Committees have promoted, but will also benefit those whose interest is confined to a particular programme.

?

do you want all this?

National Insurance Contributions

27. I turn now to National Insurance Contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my Rt Hon Friend the Secretary of State for Social Security made on 27 October.

28. The lower earnings limit will be increased next April to £43 a week, in line with the single person's pension, and the upper earnings limit will be raised to £325 a week. The limits for the reduced rate bands will also be increased to £[75] a week and £[110] a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £[160] a week.

29. In recent years, we have pursued a consistent policy of steadily reducing^{ed} the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. This currently stands at 5 per cent. We now propose to carry this policy forward to its logical conclusion and to abolish the Supplement, subject to Parliament approving the necessary provisions in the Social Security Bill which my Rt Hon Friend will be placing before the House in the forthcoming Session. However, in view of the healthy state of the National Insurance Fund, this decision will not require any change in contribution rates. Thus, the main Class I contribution rates will ^{remain} once again be unchanged at 9 per cent for employees and 10.45 per cent for employers.

The Industry Act Forecast

C.
No specific drafting - see my note on front page.
AMH

(Help!)
30. Finally I turn to the Industry Act Forecast. Growth in domestic spending this year has significantly exceeded my expectations at budget time, and indeed the expectations of nearly everyone else. It would be quite wrong to play down the size of this under prediction, and I do not seek to do so. And indeed it is little comfort that so many others made similar errors.

31. I have taken the necessary steps to counter the adverse effects of this higher spending by substantially raising interest rates. This will in time lead to the necessary correction. In 1988, however, this strength of domestic spending has had important consequences for economic growth, inflation and the balance of payments and I will deal with these in turn.

32. Growth of GDP this year is likely to turn out at 4½ per cent, compared with the 3 per cent I expected at the time of the Budget. This implies growth of the non-oil economy of 5 per cent, a growth rate not achieved for fifteen years. Indeed the seven years to 1988 will turn out to be [one of] the most [satisfactory] seven year period(s) with high growth at a steady rate since the war. [This may not be true: we are checking.]

Don't mention investment until para 38.

33. This strong growth performance has enabled unemployment to continue to fall rapidly. Since mid-1986 unemployment has fallen by just under a million, or 3½ per cent of the labour force. No other major country has a comparable record over this period.

SECRET AND PERSONAL

34. Higher spending and output this year have had an unwelcome effect on inflation which has been edging up. As far as the RPI is concerned this rise in inflation has been artificially increased by the effect of higher interest rates, which are essential to reduce inflation. [Few other countries measure consumer price inflation in this misleading way.] RPI inflation is likely to be just over 6 per cent in the fourth quarter of this year.

35. The faster than expected domestic spending has contributed also to a very large rise in the volume of imports, which was 13 per cent higher than a year ago in the third quarter of this year. Thus while exports have broadly maintained their share of world trade the current account deficit has turned out to be a good deal larger than expected. I expect the deficit to be £13 billion this year, equivalent to 2½ per cent of GDP.

Said that last year. 36. Economic forecasting is particularly difficult in current circumstances. Activity and inflation have been higher than expected this year: at the same time I have tightened monetary conditions significantly and the effects of that tightening have not yet been recorded. It is always especially difficult to predict turning points.

37. The economy is forecast to grow by 3 per cent in 1989. As production of North Sea oil will be declining this implies growth of 3½ per cent for the non-oil economy. I expect the growth of consumers' expenditure to be a good deal lower than this year at 3 per cent. The personal sector has borrowed heavily in recent years

SECRET AND PERSONAL

and there are already some signs that the current high level of interest rates is leading to more cautious behaviour. In these circumstances I expect the savings ratio to begin to recover.

38. The welcome boom in business investment, which has such important and beneficial implications for the supply potential of the economy, should continue. But I expect a much smaller year on year growth in business investment in 1989 of 7 per cent, down from 13 per cent in 1988. Total domestic demand should rise at about [2½ to 3] per cent, about half of the growth in the current year.

39. While there could well be some further rise in inflation in the first half of next year, I expect it to be (firmly) on a downward trend in the second half of the year and to reach 5 per cent by the fourth quarter.

40. I have already made clear that the current account of the balance of payments is likely to be one of the last indicators to adjust to the tightening of monetary policy. My forecast is for a deficit of £12 billion in 1989, but the deficit should be declining during the year.

41. Thus the economy will be entering a new phase of somewhat slower growth over the next twelve months or so. This will bring with it a reversal of the recent upward movement in inflation and in due course the current account deficit will also decline.

Conclusion

42. The Government's sound financial policies are playing an important role in maintaining the economy on a stable course. The increases in interest rates in the summer were essential to keep inflation under control. The public finances are in a very strong position, and the expenditure plans I have just announced will keep them that way.

1. Alex
2. pup.

SCORECARD
COPY No 3 OF 22 COPIES

FROM: J MACAUSLAN
DATE: 21 OCTOBER 1988

CHIEF SECRETARY +1

cc **Chancellor**
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mr Turnbull
Mrs Butler
Mr Richardson
Mr Hansford
Mr Mowl
Mr Gieve
Miss Walker
Mr Call
Mr Tyrie

* Cont.
1 with LAD
a my as son
X ~~my~~ of me d.
as

a
Just got - not
time to highlight!
AJL

SCORECARD 21 OCTOBER

Table 1 below is the revised scorecard. Table 2 shows the changes since the 14 October scorecard. Table 3 shows the bottom line.

2. This latest scorecard includes the Social Security deal; the offers to Wales, Scotland and Northern Ireland; the deal with Transport including slightly higher VAT consequential than expected; the increase expected for the Treasury; and the offers you have made in the last 24 hours to Education, Aid and Health. (On health, the £85 million offer is offset by a slight improvement in the final figure for clinical regrading. On aid, an estimating change on ODA superannuation has also been included). Territorial effects are included when appropriate.

3. The scorecard does not include the effects of the revised assumptions for the GDP deflator on housing benefit, or of the revised assumptions for the RPI and Rossi, interest rates and unemployment. Our best guess as to the effects of these is set out in Table 3.

4. The effects of the revised assumptions for the Chancellor's Departments are already in the scorecard, and are therefore in Table 1 but not in Table 3. They comprise the effect of the new RPI assumption on civil superannuation (about £7 million a year, we guess); and the effect of new interest rates on LAPR/MIRAS (about £22 million in 1989-90). (Table 2 shows a reduction for the Chancellor's departments because our estimate last week of the effect of the assumptions was too pessimistic).

5. At the time of writing, we had not heard that Mr King had confirmed his settlement; whether Mr Walker would ask for the flow through of his extra £8 million in 1989-90 for the later years; nor that Mr Baker, Mr Unwin and the Lord Chancellor have accepted their deals. OFTEL and the Treasury remain to be settled.

6. In addition, there remains uncertainty about the effect of the economic assumptions, and of the overseas price movements on FCO. The normal process of checking figures with divisions and departments is already encouraging a number of discrepancies - some helpful, some not - to crawl out of the woodwork. But all of these problems should have been resolved by Tuesday at the latest.

7. In the meantime, Table 4 shows the implications of the possible outcome of the Survey.

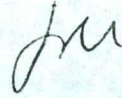
8. It looks as if it should be possible to balance the books such that there is no addition to the planning total in 1989-90. The addition in 1990-91 looks like being under £3.5 billion.

9. The real growth rates of the planning total and of GGE look almost exactly the same as in Table 3 to my note of 19 October. Again, the GGE ratio runs some risk of stagnating at 39¼ per cent through the period. But some judicious rounding should allow us to show 39½/39¼/39 per cent.

X | 10. We will put up a submission on Wednesday about balancing the books - covering the Reserve, debt interest, other national accounts adjustments, the exact run of the money GDP figures, and any necessary adjustments to eg EC contributions. This will also

SECRET AND PERSONAL

recommend final decisions on the unemployment assumption. And it will cover the GGE ratios. The decision on scoring the BAE payment for Rover will need to be taken on Monday.



J MACAUSLAN

TABLE 1

SECRET
SUMMARY SCORECARD

Date of last update: 21/10/88

(£million)

	1989-90	1989-90	1989-90	1989-90	1990-91	1990-91	1990-91	1990-91	1991-92	1991-92	1991-92	1991-92
	BASELINE	DEPT	FORECAST	HMT	BASELINE	DEPT	FORECAST	HMT	BASELINE	DEPT	FORECAST	HMT
		POSITION	OUTCOME	POSITION		POSITION	OUTCOME	POSITION		POSITION	OUTCOME	POSITION
Ministry of Defence	19,969.0	100.0	100.0	100.0	20,575.0	500.0	500.0	500.0	21,075.0	900.0	900.0	900.0
FCO - Diplomatic, Information, Culture	743.0	20.9	20.9	20.9	761.0	42.2	42.2	42.2	780.0	45.9	45.9	45.9
FCO - Overseas Development Administration	1,505.0	35.0	35.0	35.0	1,551.0	76.0	76.0	76.0	1,590.0	102.0	102.0	102.0
European Communities	1,470.0	500.0	500.0	500.0	1,320.0	630.0	630.0	630.0	1,353.0	230.0	230.0	230.0
Intervention Board for Agricultural Produce	1,690.0	-421.1	-421.1	-421.1	1,845.0	-395.8	-395.8	-395.8	1,891.0	-268.4	-268.4	-268.4
Ministry of Agriculture, Fisheries and Food	786.0	14.5	14.5	14.5	801.0	8.7	8.7	8.7	821.0	5.0	5.0	5.0
Forestry Commission	64.0	8.6	8.6	8.6	65.0	11.9	11.9	11.9	67.0	13.6	13.6	13.6
Department of Trade and Industry	1,282.0	63.8	63.8	63.8	1,222.0	79.2	79.2	79.2	1,225.0	-71.7	-71.7	-71.7
Export Credits Guarantee Department	128.6	6.8	6.8	6.8	95.9	3.6	3.6	3.6	97.5	-38.1	-38.1	-38.1
Department of Energy	309.0	35.6	35.6	35.6	316.0	4.7	4.7	4.7	323.0	-70.9	-70.9	-70.9
Department of Employment	4,185.0	-200.0	-200.0	-200.0	4,241.0	-300.0	-300.0	-300.0	4,347.0	-400.0	-400.0	-400.0
Department of Transport	2,244.0	324.2	324.2	324.2	2,299.0	397.9	397.9	397.9	2,357.0	405.5	405.5	405.5
DOE - Housing	2,378.0	-1,283.2	-1,283.2	-1,283.2	2,399.0	-991.5	-991.5	-991.5	2,459.0	-702.2	-702.2	-702.2
DOE - Other Environmental Services	904.0	75.0	75.0	75.0	935.0	-76.0	-76.0	-76.0	958.0	-67.0	-67.0	-67.0
Home Office	1,382.0	246.1	246.1	246.1	1,415.0	353.9	353.9	353.9	1,450.0	323.7	323.7	323.7
Legal departments	1,046.0	34.9	34.9	34.9	1,107.0	63.3	63.3	63.3	1,135.0	108.4	108.4	108.4
Department of Education and Science	5,156.0	363.1	363.1	363.1	5,293.0	403.6	403.6	403.6	5,425.0	368.3	368.3	368.3
Office of Arts and Libraries	454.0	4.1	4.1	4.1	471.0	1.6	1.6	1.6	483.0	25.4	20.4	13.4
Department of Health	18,559.0	1,256.0	1,256.0	1,256.0	19,445.0	1,477.0	1,477.0	1,477.0	19,931.0	1,896.0	1,896.0	1,896.0
Department of Social Security	50,889.0	72.4	72.4	72.4	53,347.0	1,330.9	1,330.9	1,330.9	54,681.0	3,183.2	3,183.2	3,183.2
Scotland	5,033.0	213.4	213.4	213.4	5,206.0	259.0	259.0	259.0	5,336.0	342.1	342.1	342.1
Wales	2,101.0	172.2	172.2	172.2	2,169.0	178.9	178.9	178.9	2,223.0	204.2	204.2	204.2
Northern Ireland	5,323.0	114.7	114.7	114.7	5,508.0	135.6	135.6	135.6	5,645.0	199.6	199.6	199.6
Chancellor's Departments	4,019.0	52.9	51.7	50.7	4,162.0	95.0	93.6	90.1	4,268.0	196.9	193.9	189.2
Other Departments	397.0	25.7	25.7	25.7	415.0	35.1	35.1	35.1	425.0	73.2	73.2	73.2
DOE - Property Services Agency	-163.0	27.6	27.6	27.6	-162.0	16.1	16.1	16.1	-166.0	-29.0	-29.0	-29.0
Nationalised Industries	114.0	-170.5	-170.5	-170.5	-274.0	-271.8	-271.8	-271.8	-282.0	-440.2	-440.2	-440.2
Privatisation EFLS		166.8	166.8	166.8		259.4	259.4	259.4		1,813.9	1,813.9	1,813.9
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	3,627.5	3,626.3	3,625.3	170,692.0	6,462.5	6,461.1	6,457.6	174,918.0	10,710.4	10,702.4	10,690.7

+126.3

+2,961.1

TABLE 2

SECRET

21/10/88

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
FCO - Overseas Development Administration	5.0	21.0	22.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.0	0.0	0.0
Department of Employment	0.0	0.0	0.0
Department of Transport	46.2	66.0	67.4
DOE - Housing	0.0	0.0	0.0
DOE - Other Environmental Services	0.0	0.0	0.0
Home Office	0.0	0.0	0.0
Legal departments	1.3	1.9	2.3
Department of Education and Science	4.0	4.0	4.0
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health	80.0	80.0	80.0
Department of Social Security	-119.0	7.5	46.8
Scotland	-56.6	-59.4	-34.4
Wales	12.8	0.9	9.8
Northern Ireland	-3.7	-10.0	-7.1
Chancellor's Departments	-13.5	-36.7	-51.4
Other Departments	0.8	0.5	-0.4
DOE - Property Services Agency	0.0	0.0	0.0
Nationalised Industries	0.0	0.0	0.0
Privatisation EFLs	0.0	0.0	0.0
Local Authority Relevant	0.0	0.0	0.0

POSSIBLE CHANGES TO 21 OCTOBER SCORECARD

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Scorecard:</u>			
Additions to planning total	+ 126	+2,961	+7,202
<u>Economic assumptions</u>			
GDP deflator (social security)	+ 27	+ 28	+ 30
Rpi/Rossi (social security)	-	+ 565	+ 790
Unemployment (1.9m) (social security)	- 225	- 235	- 245
Interest rates	<u>+ 95</u>	<u>+ 5</u>	<u>-</u>
	- 103	+ 363	+ 575
Resulting addition to planning total	+ 23	+3,325	+7,780

SURVEY OUTCOME

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fm)		-	3,350	7,800
Real growth (%)				
over previous year	- 0.6	3.5	3.8	3.7
over 1987-88				2.6
1988-89				3.7
<u>GGE</u>				
As % of GDP	39.87	39.3	39.2	39.13
rounding to	40/39½	39½	39½	39½/39
Real growth (%)				
over previous year	- 0.3	1.0	2.1	2.4
over 1987-88				1.3
over 1988-89				1.8
<u>Assumptions</u>				
(£ billion)				
Other national accounts				
adjustments	9.6	9.3	9.2	8.7
Debt interest	17.7	17.1	16	15.8
Reserves		3.5	7.0	10.5

SECRET AND PERSONAL

SCORECARD

COPY NO 1 OF 19 COPIES

From: J ODLING-SMEE

21st October 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Sir Peter Middleton
 Mr Anson
 Sir Terence Burns
 Mr Turnbull
 Mr Sedgwick
 Mrs Butler
 Mr MacAuslan
 Mr Mowl
 Mr S Davies o.r
 Mr Gieve
 Mr Franklin
 Miss Simpson
 Miss Walker
 Mr Call
 Mr Tyrrie

Thanks.
 Ch
 will depend on final
 roundings, but looks as
 if we might use "usual
 AS convention" *RJK*
 AA ✓

DEBT INTEREST

I attach three alternative medium-term projections of debt interest, together with the MTF5 numbers. They are consistent with the decisions you made on 19 October about the numbers for the Industry Act Forecast and the economic assumptions for later years. The GGE/GDP ratios associated with them are consistent with the planning totals in today's scorecard.

2. The three variants differ only in the last two years. If we adopted the usual Autumn Statement convention (from which we departed last year) of assuming that the PSDR returns to the MTF5 path in the years beyond the Industry Act Forecast, gross debt interest is estimated to fall to £15.8 billion. If, on the other hand, we assumed that the PSDR stays at £10 billion in the last two years, gross debt interest would fall to £14.7 billion. The third variant merely holds gross debt interest payments constant in nominal terms; by coincidence this produces figures which are the same as in the MTF5 as a per cent of GDP.

3. The stylised projection which I mentioned as a possibility at your meeting on 19 October, namely a percentage of money GDP which

SECRET AND PERSONAL

declines at the same rate as in the MTFS, is of little interest. Since the current projection of gross debt interest in 1989-90 is the same as in the MTFS, the stylised path would produce more or less the same debt interest payments as in the MTFS. If we are going to use these numbers we might as well describe them straightforwardly as the MTFS numbers.

4. The table also shows the effect on the GGE ratio of the various debt interest paths when superimposed on GEP's latest scorecard. The constant nominal path leads to a rise in the ratio in 1990-91, with no progress in 1991-92. The previous MTFS figures show a flat path. Either of the variants based on assumptions about the PSDR would show a falling path. (In the case of the usual Autumn Statement convention, it should be possible, if you wanted, to show a rounded ratio of 39½ per cent in 1989-90.)

5. The difficulty with assuming a PSDR of £10 billion all the way through is that (if we were forced to admit that was the assumption) we could be drawn into a debate as to why we were changing the MTFS now - something we have said we never do in the Autumn. There is also the risk of having to raise the GGE ratio at Budget time if the new MTFS shows a smaller PSDR.

6. We are not seeking decisions about the debt interest path now. GEP propose to put up a submission on Wednesday next week, for decisions on Thursday, when they have what they hope will be the final expenditure numbers. The debt interest path can then be considered alongside the proposals for the Reserves.

Do-f

J ODLING-SMEE

SECRET AND PERSONAL

£ billion

1987-88 1988-89 1989-90 1990-91 1991-92

1988 MTFS

PSDR	3	3	0	0	0
Gross debt interest	17.5	17.5	17.1	16.9	16.4
(% of money GDP)	(4.1)	(3.8)	(3.5)	(3.2)	(3.0)
GGE/GDP ratio (%) ⁽¹⁾			39.3	39.3	39.2

Usual AS convention

PSDR	3.5	10	10	0	0
Gross debt interest	17.5	17.7	17.1	16.0	15.8
(% of money GDP)	(4.1)	(3.8)	(3.4)	(3.0)	(2.8)
GGE/GDP ratio (%)		39.9	39.3	39.2	39.1

39 1/2 39 1/4 39

Alternative PSDR path

PSDR	3.5	10	10	10	10
Gross debt interest	17.5	17.7	17.1	15.7	14.7
(% of money GDP)	(4.1)	(3.8)	(3.4)	(2.9)	(2.6)
GGE/GDP ratio (%)		39.9	39.3	39.1	38.9

39 1/2 39 39

Constant nominal debt interest

Gross debt interest	17.5	17.7	17.1	17.1	17.1
(% of money GDP)	(4.1)	(3.8)	(3.4)	(3.2)	(3.0)
GGE/GDP ratio (%)		39.9	39.3	39.4	39.4

Memo: Money GDP 424 469 505 536 565

(1) Based on current planning total and GDP projections, not those in MTFS

Handwritten red scribbles and numbers: 117, 119, 125, 122, 121



FROM: A C S ALLAN
DATE: 24 October 1988

↓ Allan
2 pm

MR ODLING-SMEE

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Sedgwick
Mr Turnbull
Mrs Butler
Mr S Davis
Mr Gieve
Mr MacAuslan
Mr Mowl
Mr Franklin
Miss Simpson
Miss Walker
Mr Call
Mr Tyrie

DEBT INTEREST

The Chancellor was grateful for your minute of 21 October. He will be taking a decision about the debt interest path on the basis of GEP's submission on Wednesday on the final expenditure numbers.

A handwritten signature in black ink, appearing to read 'A C S Allan'.

A C S ALLAN

SECRET AND PERSONAL

SCORECARD

COPY NO: | OF: 25

FROM: J MACAUSLAN

DATE: 25 OCTOBER 1988

CHANCELLOR +1

- cc: Chief Secretary +1
- Sir P Middleton
- Mr Anson
- Sir T Burns
- Mr Monck
- Mr Phillips
- Mr Luce
- Mr Odling-Smee
- Mr Sedgwick
- Mr Turnbull
- Mrs R Butler
- Mr Gieve
- Mr Mowl
- Mr Pickford
- Mr Richardson
- Miss Simpson
- Miss Walker
- Mr Call
- Mr Tyrie
- Mrs Crane

Ch

CST will need to crawl through detailed departmental texts - which are v patchy, & some need to long. Numerous comments made. Do you see any need for an ad hoc meeting?

AUTUMN STATEMENT: WRITTEN STATEMENT, CHAPTER 1

I attach a first draft of chapter 1 of the written statement. The timetable requires that the chapter be sent to the printers by 6 pm on Thursday 27 October. I would therefore be most grateful for any comments on the draft by 11 am on Thursday. I gather that there is a slot for a meeting, if necessary, on Wednesday morning.

2. The draft follows the structure of the mock-up approved by the Chief Secretary in July.

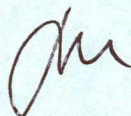
[and you!]

Handwritten notes in red ink:
 have done 1.01 - 1.19
 James 1.75 - 1.78
 + charts & graphs taken
 Rest for CST stage
 @ this
 Return

3. The figures are not yet final, and the charts and most of the tables have not yet been updated. The figures are being finalised today in consultation with divisions and departments. For publication, departmental figures will be rounded to the nearest £10 million (except for social security, which will be rounded to the nearest £100 million).

4. The passages for individual departments have been cleared with divisions and departments. But we will be sending the paragraphs round divisions again for a final check. Some of the paragraphs are a good deal more tentative than others. For instance, the paragraph on debt interest (1.69) and references to the outturn year (1.07 and 1.16) will need to be settled in the light of decisions you take on the submission we intend to put up tomorrow.

5. The draft shows roughly where the charts and tables will come. But the exact placing will depend on how the text falls across pages when printed.



J MACAUSLAN

for the first time in over

Public expenditure plans

Main points

1.01 In the current year, government spending as a proportion of national income will fall below 40 per cent lower than at any time during the last 20 years. The proportion will have fallen by about 7 percentage points since 1982-83. Over the next three years, it is expected to continue to fall, reaching the lowest level since 1966-67.

is expected to and excluding privatisation proceeds,

Some

In real terms

1.02 The plans for government spending should allow growth in real terms of an average of about 1 1/4 per cent a year from 1987-88. This maintains the steady rate of growth projected in the last public expenditure White Paper, Cm 288.

for the next three years

slightly

government spending exclude privatisation proceeds

as the base 1982-83

to 1991-92.

1.03 The public expenditure planning total for 1989-90 has been maintained at £167.1 billion, unchanged from previous plans. The planning total for 1990-91 has been set at £167.1 billion, up £3 1/2 billion on previous plans; and that for 1991-92 at £176.1 billion. These totals include Reserves to meet unforeseen requirements of £3.5 billion, £7 billion and £10.5 billion respectively.

As last year,

an increase of

1.04 Compared with the plans published in Cm 288, extra resources have been provided to meet the Government's priorities, These include health, law and order, defence and roads. Provision for local authority current spending and the UK's net contribution to the European Communities is also higher.

including extra spending on

further

1.05 Extra provision of about £1 1/2 billion in 1989-90 and 1990-91 has been made for capital spending, including increases for the nationalised industries and for housing, roads, prisons and health.

yes

order: health, roads, housing, prisons, NIs?

1.06 The fall in unemployment makes savings possible on social security and employment and training programmes, and lower Government borrowing reduces the burden of debt interest. These, together with lower costs of agricultural support and higher housing receipts, and continuing improvements in value for money, help to make room for the increases for priority programmes while still allowing government spending to decline in proportion to national income.

as a

1.07 The latest forecast of the planning total in the current year, 1988-89, is [£153.6] billion, [£3.3] billion lower than the plans in Cm 288.

(You suggested 153.8 x 3.5 but I know GE are unhappy - submission tomorrow)

no: 3.1

Aims and objectives

1.08 The government's plans for public spending form a central part of its economic policy. They are set in the context of the Medium Term Financial Strategy (MTFS) which aims to reduce inflation and to maintain the conditions for sustained growth.

(?)

No of the Medium Term Financial Strategy

1.09 Within that framework the Government's objectives are to hold the rate of growth of public spending below the growth of the economy as a whole, and thus to reduce public spending as a proportion of national income, and to improve value for money.

Overall objective for public expenditure is to hold its rate of growth below the rate of growth of the economy as a whole, and thus to reduce public spending as a proportion of national income, and to improve value for money.

This will allow the budget to be kept in broad balance over the medium term, and at the same time leave room for reductions in the burden of taxation, as and when it is prudent to make them, so encouraging enterprise and efficiency and thus the growth of output and employment.

"a continued tight fiscal position" or "further public sector debt repayments"

1.10 This objective is expressed in terms of general government expenditure (GGE) as a [ratio to] Gross Domestic Product (GDP). GGE is a comprehensive measure of the amount which has to be raised by taxation or borrowing, to finance the combined spending of central and local government, including debt interest. It is the main expenditure aggregate used for the formulation of macro-economic policy and in the MTFS.

thus

1.11 For the purposes of planning and control, the Government uses the public expenditure planning total. By controlling expenditure within these cash plans, the Government seeks to achieve its wider medium term objective specified in terms of GGE.

however,

1.12 The planning total is built up from the control totals set for individual departmental programmes. It is wider than GGE in including all external finance for public corporations, and not just that which they obtain from Government; but it is narrower in excluding debt interest. The planning total and the departmental plans within it are set in cash, as are the various control totals for 1989-90 which are derived from it, such as Supply Estimates, cash limits, running costs limits and external financing limits of public corporations.

Too long?

differs from GGE in including all external finance for public corporations, and not just that which they obtain from Government; but it is narrower in excluding debt interest.

Chart 1.1

Table 1.1 ← ~~at back~~. Do we have to have this?

Trends in public spending

1.13 The ratio of general government expenditure to GDP has been falling since 1982-83 and the plans set out in this Autumn Statement will ensure that this downward trend continues. This is shown in Chart 1.1. Excluding privatisation proceeds the ratio has declined from a peak of nearly 47 per cent in 1982-83 to just under 40 per cent in 1988-89, and is expected to decline further to just under 39 per cent in 1991-92, the lowest level since 1966-67, Table 1.1 shows how these ratios compare with plans published in previous years.

1.14 Chart 1.2 shows the trend of public spending in real terms. Between 1978-79 and 1987-88, the average real growth in general government expenditure excluding privatisation proceeds was around 1½ per cent, compared with nearly 3 per cent in the decade before that. In the four years from 1987-88 to 1991-92, the rate of growth is expected to average 1½ per cent a year. This maintains the steady rate of growth projected in Cm 288.

The planning total

1.15 The planning totals, and the differences between the planning total and general government expenditure are shown in Table 1.2. The main difference between the two aggregates is debt interest (see paragraph 1.69). Table 1.3 shows how the new plans compare with plans published in previous years.

Chart 1.2

Table 1.2

Table 1.3

1988-89 outturn

1.16 The estimated outturn for the planning total in 1988-89 is [£153.6] billion, [£3.3] billion below the plans in Cm 288. A number of additions have been made to programmes during the

current year, including ^{an} the increase of over £1 billion in health expenditure. These have been offset by higher privatisation proceeds, higher than expected local authorities' and new towns receipts (^{which more than offset} ~~exceeding~~ the overspend on local authority capital expenditure), and lower social security ^{spending} ~~expenditure~~ resulting from the fall in unemployment.

The new plans

1.17 Table 1.4 sets out the revised spending plans and the changes since the public expenditure White Paper for each departmental programme, including associated expenditure by local authorities and public corporations. The following paragraphs briefly describe the new plans.

1.18 There have been substantial increases in provision for ~~some~~ priority programmes. Within an unchanged planning total for 1989-90, for example, £[1.2] billion extra has been allocated to the National Health Service in England, £[295] million to law and order and £[225] million to roads in England. ^{Appropriate} additions have been made to the ~~territorial block budgets~~ ^{of Scotland, Wales and Northern Ireland}. The plans provide for major investment programmes ~~by the nationalised industries remaining in the public sector; but also~~ ^{reflect} ~~take account~~ in 1991-92 in particular, ~~of~~ the loss of the substantial net repayments of external finance from the electricity and water industries following privatisation. In addition, the plans for each year contain higher provision for local authority current expenditure, and substantial Reserves.

1.19 It is possible to accommodate these increases and to maintain a declining trend for public expenditure as a proportion of national income, because of reductions elsewhere. These reductions stem from, in particular, the improved performance of the economy, and continuing improvements in value for money. ~~Progress in reform of the Common Agricultural Policy of the European Community is contributing to reductions in provision for agricultural market support.~~ Falling unemployment reduces the rate of growth of social security expenditure, and makes savings possible on employment and training programmes. In addition, the

but EC controls ↑

budget change climate variation.

Company

Can we have UK NHS nos too?



but controls should.

nationalised industries have continued to strengthen their businesses and reduce the burden they place on tax payers; and the success of the Government's Right to Buy policy for local authority housing allows a reduction in net public expenditure provision to be combined with increased gross expenditure on housing by local and central government. Finally, the ~~Government's adherence to sound financial policies (is) reducing the burden of debt interest.~~ ^{are}

Table 1.4

~~Dr. [unclear]~~ Government is now repaying the national debt & this reduces the burden of debt interest.

Defence

FROM 11.75 TO 1.74 (INCLUSIVE) LOAN AT THIS STAGE TO THE CST. BUT P&G PASS HM 4R COMMITTS. A SUBSTANTIAL AMOUNTING EXERCISE IS REQUIRED.

1.20 The Government's aims for defence are to ensure the security of the nation and maintain its freedom, in particular by maintaining the effectiveness of its contribution to the NATO alliance. Provision for defence is being increased by about £[] million in 1989-90 to some £[] billion, and will rise to about £[] billion in 1991-92. [Planned provision for 1991-92 is nearly treble in cash terms provision in 1978-79.]

1.21 The UK's defence capabilities will continue to benefit from the substantial real increase in provision since 1978-79. Equipment orders since 1979 have included 64 major ships, 7 regiments of Challenger tanks and over 500 aircraft for the Royal Air Force.

1.22 A wide range of measures have been implemented to improve efficiency and value for money, particularly through improved procurement practices, and the contracting out of support services to the private sector which has led to a reduction of over 13,000 posts since 1979 and an annual saving of some £50 million [compared with the in-house provision of the services]. Service manpower resources continue to be switched from the support area to front-line tasks.

1.23 Further improvements are planned [through a co-ordinated programme] to achieve specified efficiency improvement targets over three years to 1990-91. This is being dovetailed with the Department's New Management Strategy, described in Chapter Five of the 1988 Statement on the Defence Estimates.

ugh!

Foreign and Commonwealth Office (Diplomatic Wing)

(very long)

1.24 The FCO is responsible for the overseas representation of UK interests. It maintains for this purpose 208 overseas Posts - including delegations to international organisations, covering 165 countries. [The main duties of the Diplomatic Service are in the political, economic, information, consular, entry clearance and aid administration fields.] The Diplomatic Wing also administers some programme expenditure - scholarships, information services and military training - and provides subscriptions to international organisations, and grants to non-governmental organisations and to the British Council and the BBC External Services.

^{d provide}
1.25 Increases have been agreed for an expanded programme of scholarships and training of overseas students, for the BBC external services and for the running costs of the diplomatic service, offset by a reduction in the estimated cost of overseas operations [due to expected movements in overseas prices and exchange rates.]

Overseas Development Administration

1.26 The net aid programme in 1989-90 is now set at £1,430 million. The ^{new plans} increases represent growth of almost 18 per cent by 1991-92 over previously published plans for 1988-89, [significantly faster than projections of general inflation]. The increases include provision for the full costs of the United Kingdom's interest subsidy contribution to the IMF Enhanced Structural Adjustment Facility (ESAF), the expected costs of the recently agreed programme to alleviate the burden of debt on the poorest sub-Saharan African countries, and additions to bilateral aid. Provision is also made for war service credit for former colonial servants.

allowing significant real-terms growth.

1.27 About 60 per cent of the programme is spent on bilateral aid, including both financial aid and technical cooperation, to over 120 countries. Over three quarters of this goes to countries with an annual income per head of under \$800, many of which are in the Commonwealth. The main focus is on long term development, but emergency relief, including food aid for countries suffering from famine, is also provided. Approximately 40 per cent of the programme is provided as multilateral aid through channels such as the World Bank Group, the European Community and various United Nations agencies. Increasingly, efforts focus on assisting developing countries, particularly in sub-Saharan Africa, to undertake economic policy reforms to provide for sustainable growth.

European Communities

needs re-doing
! ?
1.28 The increase in the projection of the United Kingdom's net payments to Community institutions reflects the effects of the agreement reached at the Brussels European Council in February on the future financing of the Community, higher VAT contributions (reflecting the growth of the economy), higher customs duties (resulting from higher imports from third countries) and a lower^{er?} share of receipts.

MAFF

1.29 Spending on agriculture is largely determined by the Common Agricultural Policy (CAP) of the European Community. The Government's objective in Community negotiations is to bring spending under control while continuing to foster an efficient and competitive agricultural industry, taking account of the interests of producers, consumers and the rural economy and environment.

1.30 Provision for market support has been reduced as a result of progress in reforming the CAP, as well as in the short term the expected effects on agricultural prices of the drought in North America and ^{the smaller} lower than expected 1988 harvest in the United Kingdom. There are also savings reflecting lower than expected

take up of capital grants under the Agricultural Improvement Scheme; [a decision to] increased revenue from the chargeable advisory services; and [the policy of] reducing Government expenditure on near market R&D in favour of higher priority work within the science and technology area. These reductions are partly offset by increased spending on flood prevention and on forestry [(to compensate for the withdrawal of tax relief in the 1988 Budget)].

Trade and Industry

(good length)

1.31 The Department's main objective is to encourage enterprise and wealth creation. Expenditure on business development under the Enterprise Initiative is ^{planned} projected to build up, [reaching] 15 £160 million by 1991-92. The new plans reflect the privatisation of British Steel and further privatisation of shipbuilding. [Apart from this] there have been increases in planned provision for regional assistance, resulting from an increase in applications for Regional Development Grant [prior to] ^{before} the scheme's closure and for various other items of expenditure, including the Shipbuilding Intervention Fund and capital works required for the relocation of elements of the Department's activities away from London. Planned spending (falls) ^{declines} in 1991-92 principally because of the ending of current launch aid commitments.

Export Credit Guarantee Department

1.32 The Department aims to support UK exports by providing credit insurance facilities. In order to match the support given by major trading nations to their exporters, ECGD supports the provision of export finance at fixed rates of interest. These give rise to interest support costs, ^{representing} comprising the difference between the fixed rate offered to exporters and the cost of funds to the banks as providers of the finance. The changes to the plans reflect the latest estimates of the cost of interest support and tender to contract cover.

Energy

1.33 The plans for 1989-90 and 1990-91 reflect modest net reductions in the energy nationalised industries' external finance requirements. The reductions for 1991-92 take account of the privatisation of the electricity industry, which will result in the ^{disappearance} transfer of the substantial net repayments of external finance ^{from} (out of) the public expenditure figures. The changes in the departmental programme reflect the decision previously announced on the reduction in the fast reactor programme; there are also increases in provision for work on handling nuclear waste, offset by reductions in other areas of nuclear R&D expenditure.

Employment

1.34 Most of the Department's expenditure is on programmes to help young people and the unemployed to find work through training and in other ways. Some reductions in planned expenditure have been made to take account of the substantial and continuing fall in unemployment, but in real terms expenditure will still be about 60 per cent higher in 1989-90 than in 1978-79. The new plans include provision of £1.4 billion a year for the new Employment Training Scheme and around £1 billion a year for the Youth Training Scheme. There is also increased provision for running costs, including measures to achieve better targeting of help for the unemployed.

Transport

1.35 The Government's aims are to increase efficiency and reduce unit costs of transport in both the public and private sectors, to protect and improve safety, to conserve the environment, and to advance UK transport interests abroad. The programme is concentrated on national and local roads, and on other transport infrastructure. Increases of over £100 million in 1989-90 and £140 million in 1990-91 have been allocated to build new trunk roads and motorways. The Government's ^{starts?} commitment to build 450 miles of new road by 1989-90 is expected to be met. Starts are planned for over 40 schemes in 1989-90 which will add more than

↑
What? availability
testing?

may get a laugh better to leave out than use this formulation

do we want this?
↓?

200 miles of new road. Schemes on average produce time savings and safety benefits worth double their cost. Increases of £66 million in 1989-90 and £70 million in 1990-91 have been allocated to trunk road maintenance to meet the Government's target of removing the maintenance backlog by 1992. Nearly £50 million extra has been provided for bridge strengthening in 1989-90.

1.36 Capital provision for new local authority roads has also been increased, as has provision for public transport and airport facilities.

1.37 The departmental totals also include the external financing requirements of British Rail, London Regional Transport and the Civil Aviation Authority. For all three industries, the plans include substantial increases in provision for investment. The plans for British Rail include investment in quality of service improvements on Network South East and preparations for Channel Tunnel Services. Increases in investment by London Regional Transport are planned to help deal with congestion, and plans for the Civil Aviation Authority reflect the acceleration of investment to enhance the capacity of air traffic control.

Housing

1.38 Most investment in housing is by the private sector. Nevertheless, provision for gross capital investment by the public sector has been set at over £4 billion a year: an increase for 1989-90 of over £450 million on previous plans and for 1990-91 of over £350 million. Plans include increased spending by the Housing Corporation on new homes for rent, and by local authorities on renovation of their own stock through Estate Action.

1.39 The increase in gross provision is more than offset by higher forecasts of local authority receipts from council house sales to tenants under the Government's successful Right to Buy policy. Receipts are forecast at around £3½ billion a year, an increase in 1989-90 of over 80 per cent on previous forecasts.

↑
?
£ 20 million relative to previous forecasts

Other Environmental Services

1.40 This programme covers a wide range of urban, environmental and recreational services. Part of this spending is undertaken by local authorities according to local priorities. The programme also include spending by public corporations and other sponsored bodies, nationalised industries, and by the Department of the Environment on administration and research.

eg?

↑
nationalised industries

1.40A Additional provision is included for local authorities to meet the capital costs of preparing for the introduction of the Community Charge. Extra provision has been made for Urban Development Corporations and for City Grant and also for environmental research. The figures also reflect the effects of privatising the Water Industry in 1989-90 and setting up the National Rivers Authority. Increases in gross spending are offset, in part in 1989-90 and fully in 1990-91, by higher local authority and new town receipts.

Home Office

(good length)

X 1.41 The Government's main aim is to sustain the rule of law by preventing crime, securing conviction of the guilty and giving proper effect to the sentences or orders imposed by the courts. An extra £260 million has been provided for central government in 1989-90, with £370 million in 1990-91, principally for a further expansion of the prison building programme. This will provide an extra 3,150 places between 1988-89 and 1991-92 in 5 new prisons and in extra accommodation at existing prisons. In addition, the Government published in July a consultation paper on the development of measures to extend alternatives to custody (Cm 424). Provision for local authority expenditure, largely for the police, has also been substantially increased (by £350 million in 1989-90).

spending

*omit?
or
expand
looks
odd as
it stands*

Legal departments

1.42 Spending on legal aid is expected to increase, and additional resources have been provided for this and for court building and handling of court business. Planned spending on the Crown Prosecution Service and the Serious Fraud Office has also been increased.

Education and Science

1.43 Total spending of about £19.6 billion is planned for 1989-90, most of it ^{*undertaken*} by local authorities. In the schools, the level of expenditure per pupil has risen by some 30 per cent in

real terms since the beginning of the decade. The Government's education reforms will help to ensure that full value is obtained for this expenditure. Increased allocations for local authority capital spending on schools will allow a continued programme of school improvements.

leaks odd here
1.44 Participation in higher education is expected to go on rising from its present peak level. The number of first degrees awarded is now expected to be around 135,000 by 1990, more than 25 per cent up on a decade earlier. Additions have been made to put the polytechnics and colleges on a sound footing for their new independent status, and for universities. Substantial extra spending on basic science is planned, (see paragraph 1.51).
X

Arts and Libraries

ditto
1.45 The Government's policy of encouraging greater private sector sponsorship of the arts has achieved substantial results. The 3 year expenditure plan has been rolled forward, with additions in 1991-92 for incentive funding. There is extra provision for the British Library's new building project. Increased provision has also been made for local authority expenditure on museums, galleries and libraries.

Health

1.46 An increase of £1.5 billion has been made over the previous plans for the NHS and personal social services in England in 1989-90, with additions of £1.7 billion in 1990-91. As a result total spending on health and personal social services in England is planned to rise from £21.7 billion in 1988-89 to £23.2 billion in 1989-90, and £25.4 billion in 1991-92. Current expenditure on hospital and community health services will be £13.5 billion in 1989-90, £14.2 billion in 1990-91 and £14.6 billion in 1991-92. Health authorities will also have available extra cash released by a new round of cost improvement programmes and income generation schemes. The Government is also implementing a recommendation by the Government Actuary that employer contributions to the NHS superannuation scheme in England and Wales should be reduced from 7½ per cent to 4 per cent. Taking all these factors into account, the current resources available to health authorities will be about 5 per cent more in real terms in 1989-90 than in 1988-89.

1.47 The increase next year will allow health authorities to expand services significantly, while keeping their income and expenditure in balance. Full provision has been made for the costs of the 1988 pay review body awards and the nurses' clinical grading review. Increases have also been made on account of rising costs associated with AIDS and for the introduction of new nurse training courses following the Government's response to the 'Project 2000' proposals.

1.48 Hospital capital expenditure plans have been increased by £66 million next year. After allowing for higher forecast receipts from sales of surplus land, health authorities will have 16 per cent more resources for capital spending in 1989-90 than previously provided for.

1.49 Provision for the Family Practitioner Service allows for higher forecast demand and for further service improvements. There is also increased provision for local authority spending on personal social services.

Social Security

1.50 The new plans reflect the latest estimate of benefit expenditure over the Survey period. They take account of the statement on benefits by the Secretary of State on 27 October 1988. As he said, benefit rates in April 1989 are [the higher of those] ^{either} calculated directly from the published increase in the RPI for the year to September 1988 (5.9 per cent) ^{or} and of those derived from a recalculation to take account of the RPI error discovered in November 1987. The plans also provide for further upratings of benefits in April 1990 and April 1991. For the purpose of these estimates, the RPI is assumed to rise by 5½ per cent in the year to September 1989 (for the upratings in April 1990) and by 4 per cent in the year to September 1990 (for the upratings in April 1991). The number of unemployed (GB, excluding school leavers etc) is assumed to average 2.1 million in 1988-89 and 1.9 million in 1989-90, 1990-91, and 1991-92.

— whichever produces the higher figure.

family credit
and IS?

1.51 Provision is included for the extra cost of special assistance to low income families; changes to housing benefit; and help for income support claimants towards the average 20 per cent payments of rates (in England and Wales in 1989-90) and community charge. The estimated cost of disability benefits has also increased substantially (mainly reflecting expected higher take-up). These increases are partly offset by the effect of the fall in unemployment (including the tightening up of the benefit in April 1989, leaving the programme broadly unchanged in 1989-90 compared with provision in Cm 288, but around £1,700 million higher in 1990-91.

rephrase
this needs
curiously
VAA

something
missing

Scotland, Wales and Northern Ireland

only mention i downed

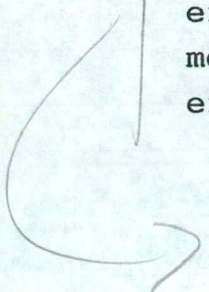
1.52 The net changes in these programmes mainly reflect the effects of changes in comparable programmes in England. They also reflect special additions in respect of the recent ECJ ruling on VAT, and to take account of the impact of buoyant English housing receipts on the territorial blocks in this, the last Survey under the present local authority capital control system. The Secretaries of State will allocate this expenditure taking account of local factors. The allocation between central Government, local authorities, and public corporations is based on previous patterns of expenditure and may be varied except in the case of local authority relevant expenditure in 1989-90, where the provision for Scotland and Wales is as announced in July in the RSG settlement for that year. For the later years the Scottish and Welsh local authority relevant figures reflect changes in the comparable totals for England.

hmm
use
want

Chancellor's departments

1.53 Most of the increase for Inland Revenue is to provide for the introduction of Independent Taxation and to enable the continuation of the development of the Revenue's successful computer systems. The increase required is offset by substantial efficiency savings. The growth in the Customs' provision is to meet the growth in forecast workload and subsumes cumulative efficiency savings of about 2½ per cent a year.

Introductory sentence?



Ch's dept increases won't as far as I can see be published in AS. Should we include some numbers for IR + CTE in text?

Other departments

1.54 This item covers a miscellany of minor departments and programmes. The increase in provision in 1991-92 reflects in particular expenditure by the Office of Population Censuses and Surveys on the 1991 Census.

Local Authorities

Current

1.55 Local authorities' public expenditure [which is also] relevant for Aggregate Exchequer Grant accounts for over three quarters of total local authority spending in Great Britain. Authorities have budgeted to exceed provision for this spending in the 1989 public expenditure White Paper by £1.2 billion in 1988-89. From the estimated outturn for 1988-89, provision for the three forward years shows annual increases of 4.7 per cent, 3.8 per cent and 3.0 per cent. The allocation to services is based broadly on authorities' budgets for 1988-89. ?!

1.56 Aggregate Exchequer Grant to local authorities for 1989-90 has been set at £17.4 billion, as the Secretaries of State for the Environment, Scotland and Wales announced in July 1989.

1.57 Local authorities' other current expenditure consists largely of Housing Benefit and Student Awards which are supported by specific grants from central Government.

omit? 1.58 The plans reflect estimates of the costs of Housing Benefit. They take into account the proposed changes in benefit entitlement announced by the Secretary of State for Social Service on 27 October.

Capital

1.59 Local authority gross capital spending in Great Britain in 1988-89 is forecast to be £8.1 billion. After allowing for capital receipts, the net cost of programmes is forecast to be £4.7 billion.

↑
odd. net spending?

1.60 Gross provision for spending in 1989-90 has been increased by £0.6 billion to £7.4 billion and gross provision of £6.8 billion has been made for both 1990-91 and 1991-92. Within this provision the amount issued as allocations will take account of expected use by local authorities of the increased spending power available to them from other sources notably capital receipts.

1.61 For the main local authority capital block in England, allocations of £2.5 billion will be issued in 1989-90. Of the total, housing authorities will receive £1.1 billion. Other Services allocations include £135 million to allow for the costs of implementing the Community Charge.

Nationalised Industries

1.62 The estimated outturn for nationalised industries' external finance for 1988-89 is £400 million, £290 million lower than the plans in last year's White Paper. The decrease reflects a number of changes, notably lower than expected external financing requirements for British Rail and British Steel.

1.63 External financing limits (EFLs) for the nationalised industries in 1988-89 are listed in Table 1.5. Investment plans have been substantially increased, particularly in the water and transport industries. (Investment plans in 1989-90 have been increased by ^{amount} over £650 million. Over the period 1988-89 to 1991-92, investment by those industries remaining in the public sector throughout the period is expected to increase by over £500 million (about 30%).

1.64 Despite the substantial level of investment planned, total provision for nationalised industries EFLs is expected to decline in 1989-90 and 1990-91, with net repayments of debt overall in these two years (Table 1.9). Total provision increases in 1991-92, as a result of the loss, due to privatisation, of the substantial negative external finance of the electricity industry. However, the trend excluding privatisation remains downward (see footnote to Table 1.9).

this effect

debt repayments of debt?

1.65 This trend is in line with the Government's objective of minimising the burden which the industries place on the taxpayer, and strengthening them as businesses earning an adequate rate of return. External finance for nationalised industries has already been significantly reduced, from nearly £3 billion in 1979-80 to an estimated £400 million in 1988-89. The Government will continue to require improvements in the industries' profitability and further progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.

Table 1.5

Other public corporations

1.66 Provision is included under this heading for a large number of public corporations including Urban Development Corporations (UDCs), the Scottish and Welsh Development Agencies, the Northern Ireland Electricity Service, new towns and the Northern Ireland Housing Executive. Substantial increases to provision have been made for UDCs. These are more than offset in 1989-90 by an increased estimate of receipts by new towns.

Privatisation

1.67 The estimate of net proceeds for 1988-89 from the privatisation programme is £6 billion. The estimate of net proceeds is £5 billion for 1989-90 and 1990-91, as in the public expenditure White Paper. These proceeds are netted off the planning total and general government expenditure. However, in order to show the underlying trends in expenditure more clearly, Charts 1.1 and 1.2 show growth rates ^{of expenditure} and ratios to national income both including and excluding privatisation proceeds.

Reserves

1.68 The plans include Reserves of £3.5 billion in 1989-90, £7 billion in 1990-91 and £10.5 billion in 1991-92. These will be available to meet unforeseen requirements.

Debt interest

1.69 General government gross debt interest is ^{projected} assumed to fall from about £17½ billion in 1988-89 to about £16 billion in 1991-92 (see Table 1.6). [Partly as a result of the] ^{Following the} reduction in government borrowing in recent years, debt interest has declined as a proportion of GDP from 5½ per cent in 1981-82 to about 4½ per cent in 1988-89 and is projected to fall to x per cent by 1991-92.

Table 1.6

Science and Technology

1.70 The science and technology expenditure of Departmental programmes has been reviewed in the Survey, following the arrangements described in "Civil Research and Development", Cm 185. The new plans reflect a reallocation of resources away from lower priority items - such as near market research in the agricultural, industrial and energy programmes - and towards increased funding of basic and long term strategic research by the universities and Research Councils. Overall an extra £220 million a year has been added to planned spending on science and technology in 1989-90 and 1990-91, including an extra £95 million for the DES science budget for 1989-90. This represents an increase for 1989-90 over 1988-89 of £120 million, or ~~16~~ per cent.

Capital spending

1.71 Extra provision of about £x billion in 1989-90 and £y billion in 1990-91 has been made for capital spending. This includes large increases for investment in hospitals, housing, prisons, and roads. In addition, there is provision for increased investment by the nationalised industries, including on anti-pollution measures by the water authorities and on safety measures by London Regional Transport.

Value for Money

1.72 The Government continues to attach high priority to getting better value for money from all public expenditure. The improvements in public services which can be delivered by the new public expenditure plans described above will be increased by continuing improvements in value for money. The public expenditure White Paper, to be published early in 1989, will include information on the output and performance of each departmental programme, including details of performance against specific targets.

1.73 In 1988-89 departments aim to achieve value for money improvements in purchasing and supply totalling some £337 million. At the same time efficiency scrutinies are saving some £325 million a year, while market testing is now saving some £40 million a year on activities previously handled by the civil service. In February 1988 the Government announced that it had accepted the main recommendations in the Efficiency Unit's report "Improving Management in Government: The Next Steps". The progressive programme to create agencies to carry out the executive functions of Government will lead to further improvements in civil service efficiency.

1.74 The Government will continue to encourage improvements in value for money elsewhere in the public sector. This is already producing results and pointing the way to achieving more. For example, in the National Health Service cost improvement programmes are expected to yield over £700 million in England by the end of the current financial year. In the local authorities, the Audit Commission have identified annual value for money improvements of £219 million a year which have been achieved; and scope for achieving a further £½ billion. Achievement of these will be encouraged by the present reform of local government finance and by measures in the Local Government Act 1988 to widen the scope of competitive tendering. In the nationalised industries since 1979-80 average productivity has improved more than twice as fast as estimated productivity growth in the economy as a whole.

?
the C — see
scope

identified by the
A — c — and

Departmental plans by spending authority

1.75 Tables ^{the} 1.7 to 1.9 show the new plans broken down ^{into} ~~to show~~ spending by three spending authorities: central government, local authorities and public corporations (including nationalised industries). Tables 1.10 and 1.11 show expenditure by department, from 1978-79 to 1991-92, in cash and real terms.

Changes in the presentation of public spending plans

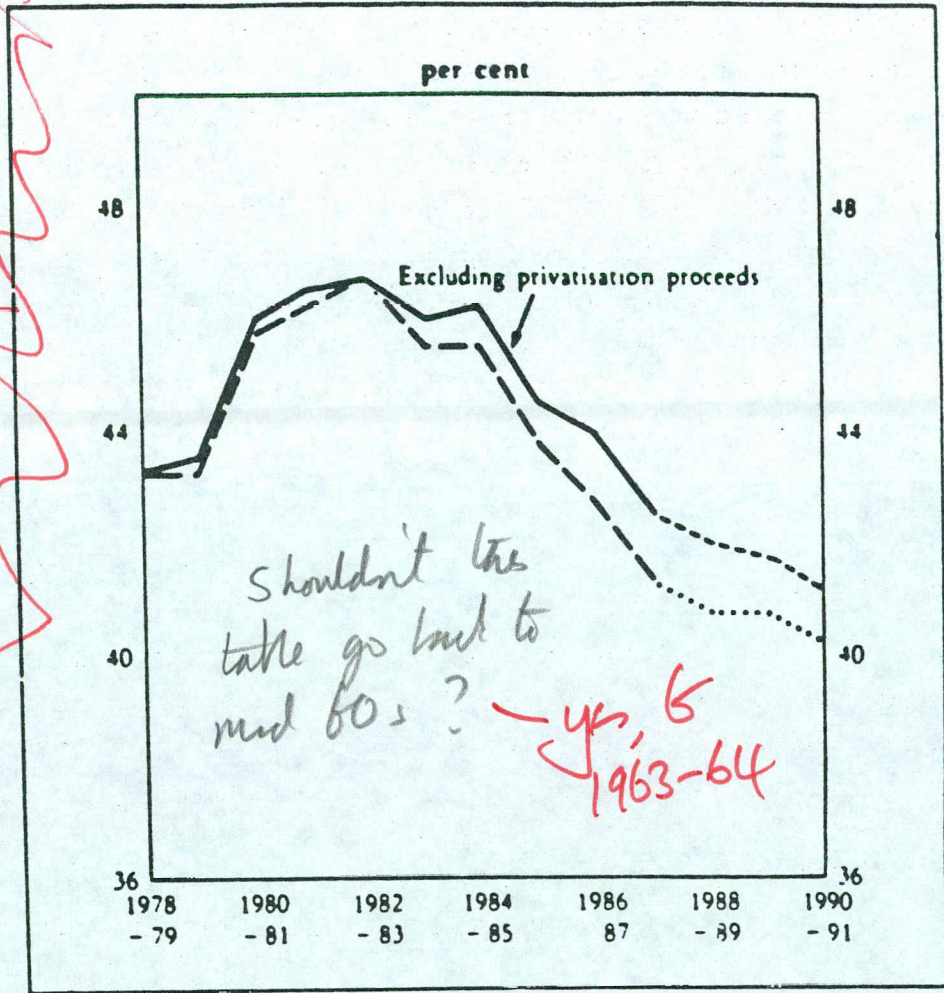
1.76 Two new developments have been announced over the past year. First, in a White Paper published in May 1988 "Financial Reporting to Parliament" (Cm 375), the Government put forward proposals for restructuring the Autumn Statement and Public Expenditure White Paper. This Autumn Statement ~~has been expanded so that it~~ ^{accordingly} now contains most of the general information on the Government's spending plans previously contained in Chapter 1 of the Public Expenditure White Paper (PEWP).

1.77 The White Paper will be published ^{as usual} in January ~~and~~ ^{but} its role will be principally to spell out the details of individual departmental programmes. The individual chapters will be ~~bound separately~~ ^{published in separate volumes}. This will provide a stepping stone to the eventual production of departmental reports to replace the White Paper and ~~will also~~ enable those interested in a particular department to obtain only that ~~chapter~~ ^{volume}.

1.78 Secondly, a White Paper published in July 1988 ("A New Public Expenditure Planning Total", Cm 441) proposed a new definition of the Planning Total, including only those elements of spending for which central government is responsible, and excluding that expenditure which local authorities finance or determine for themselves. The new planning total is to be introduced in the 1989 public expenditure Survey and will first appear in the 1989 Autumn Statement.

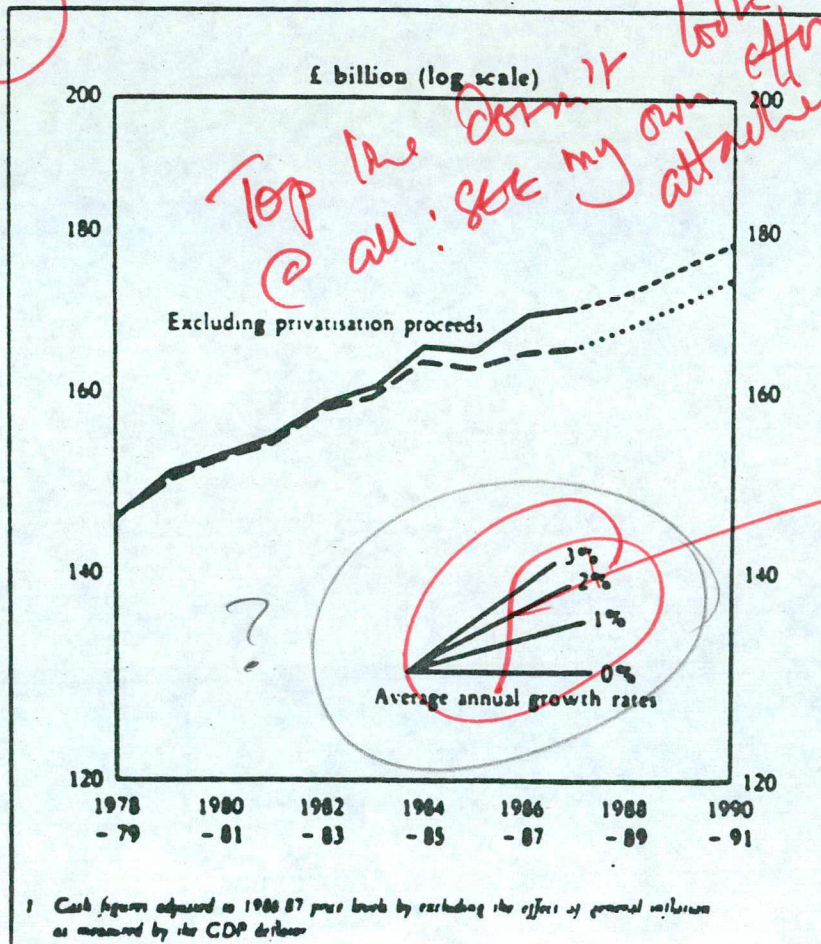
Tables 1.7 to 1.11

Chart 1.1 General government expenditure as a percentage of GDP



delete this frame; & draw all charts in same style as I agreed for charts in Ch II.

Chart 1.2 General government expenditure in real terms



Same comment as above

1 Cash figures adjusted to 1988 87 price levels by excluding the effect of general inflation as measured by the GDP deflator

Table 1.1 General government expenditure, excluding privatisation proceeds,
as a percentage of GDP; plans and outturn

	per cent								
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
March 1984 FSBR (1)	46	45	44	43					
March 1985 FSBR (1)	46	46 $\frac{1}{4}$	45 $\frac{3}{4}$	44	43				
January 1986 PEWP (Cmnd 9702)	46 $\frac{1}{4}$	46 $\frac{1}{4}$	45	44	43	42 $\frac{1}{4}$			
January 1987 PEWP (Cm 56)	46 $\frac{1}{4}$	46 $\frac{1}{4}$	44 $\frac{3}{4}$	44 $\frac{1}{2}$	44	42 $\frac{3}{4}$	42 $\frac{1}{4}$		
January 1988 PEWP (Cm 288)	46	46 $\frac{1}{4}$	44 $\frac{1}{2}$	44	42 $\frac{1}{2}$	42	41 $\frac{3}{4}$	41 $\frac{1}{4}$	
This Autumn Statement	45 $\frac{3}{4}$	46 $\frac{1}{4}$	44 $\frac{1}{2}$	43 $\frac{3}{4}$	41 $\frac{1}{2}$	39 $\frac{1}{2}$	39	38 $\frac{3}{4}$	38 $\frac{3}{4}$

(1) Financial Statement and Budget Report.

Do we really want this?

NO

Table 1.2 Public expenditure totals

	£ billion					
	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans	1991-92 plans
Central government(1)	104.7	109.4	115.0	123.4	130.9	136.5
Local authorities(1)	38.0	40.7	43.2	44.1	45.7	47.3
Public corporations	1.1	0.8	1.0	0.9	0.8	2.2
Reserve				3.5	7.0	10.5
Privatisation proceeds	-4.5	-5.2	-6.0	-5.0	-5.0	-5.0
Adjustment(2)			0.3			
Planning total	139.3	145.7	153.6	167.1	179.5	191.7
General government gross debt interest(3)	17.6	17.5	17.7	17.0	16.0	16.0
Other national accounts adjustments(3)	7.5	8.2	9.4	9.0	9.0	9.0
General government expenditure	164.4	171.5	180.6	193.5	204.7	216.2

(1) Central and local government finance for public corporations is included in the public corporations line.

(2) An adjustment for the difference between the Treasury's overall view of likely outturn for 1988-89 and the sum of the other items shown.

(3) 1989-90, 1990-91 and 1991-92 figures are rounded to the nearest £1 billion.

Table 1.3 Public expenditure planning total(1); plans and outturn

	£ billion									
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
March 1982 White Paper (Cmnd 8494) (2)	120.8	127.8								
February 1983 White Paper (Cmnd 8789)	119.7	126.6	132.4							plans
February 1984 White Paper (Cmnd 9143)	120.5	126.6	132.2	136.8						outturn and estimated outturn
January 1985 White Paper (Cmnd 9428)	120.4	128.3	132.2	136.9	141.7					
January 1986 White Paper (Cmnd 9702) (2)	120.4	129.7	134.3	139.2	144.0	148.8				
January 1987 White Paper (Cm 56)	120.4	129.9	133.7	140.5	148.7	154.3	161.5			
Jan 1988 White Paper (Cm 288)	120.4	129.9	133.8	139.3	147.4	156.9	167.1	176.1		
This Autumn Statement	120.4	129.9	133.8	139.3	145.7	153.6	167.1	179.5	191.7	

- (1) Public expenditure planning total on current definitions.
 (2) Including changes announced in the March Budget Statement.

Or this?
No: delete

TABLE 1.4: PUBLIC EXPENDITURE (1)

£ million

	Latest estimates of outturn			New plans			Changes from January 1988 White Paper (2)		
	1987-88	1988-89	CHANGE	1989-90	1990-91	1991-92	1988-89	1989-90	1990-91
	OUTTURN	ESTIMATED OUTTURN	1987-88 TO 1988-89	PLANS	PLANS	PLANS			
Ministry of Defence	18,862.2	19,300.0	437.8	20,098.2	21,138.8	22,042.8	79.0	129.8	564.2
FCO - Diplomatic wing	659.8	751.0	91.2	767.6	808.0	849.5	27.0	26.0	48.1
FCO - Overseas Development Administration	1,303.2	1,490.0	186.8	1,538.4	1,626.7	1,691.4	58.0	33.4	75.5
European Communities	1,663.8	950.0	-713.8	1,969.7	1,949.7	1,582.6	150.0	500.0	630.0
Ministry of Agriculture, Fisheries and Food (3)	1,976.2	1,863.0	-113.2	1,946.7	2,156.4	2,352.1	-349.0	-381.3	-340.7
Department of Trade and Industry	728.0	1,705.0	977.0	1,363.8	1,341.6	1,169.0	455.0	164.3	195.3
Export Credits Guarantee Department	150.8	90.0	-60.8	135.4	99.6	59.5	-41.0	6.8	3.6
Department of Energy	218.3	215.0	-3.3	-245.5	-511.8	624.4	95.0	-63.2	-99.4
Department of Employment	3,914.7	4,125.0	210.3	4,093.1	4,053.2	4,061.9	-117.0	-198.0	-297.0
Department of Transport	4,586.1	4,813.0	226.9	5,357.6	5,540.2	5,656.2	-334.0	242.7	328.5
DOE - Housing	2,697.1	2,053.0	-644.1	1,685.7	2,026.7	2,382.1	-968.0	-1,319.7	-1,018.8
DOE - other environmental services	3,640.0	4,385.0	745.0	4,475.8	4,541.9	4,680.9	525.0	478.4	438.4
Home Office	5,701.9	6,279.0	577.1	6,876.5	7,199.2	7,366.7	227.0	588.1	730.9
Legal departments (4)	793.3	955.0	161.7	1,079.0	1,168.6	1,240.7	-19.0	33.5	61.3
Department of Education and Science	17,081.1	18,440.0	1,358.9	19,570.5	20,239.2	20,773.9	469.0	866.4	998.0
Office of Arts and Libraries	888.8	981.0	92.2	976.0	1,008.4	1,054.7	68.0	27.1	27.6
Department of Health	19,715.7	21,738.0	2,022.3	23,155.0	24,378.6	25,387.6	1,055.0	1,455.0	1,699.0
Department of Social Security	46,249.3	47,601.0	1,351.7	50,970.0	55,241.8	58,645.5	-859.0	-120.9	1,687.5
Scotland	3,087.0	8,720.0	633.0	8,994.5	9,192.5	9,725.4	214.0	381.5	414.5
Wales	3,330.3	3,596.0	265.7	3,803.6	3,921.7	4,047.9	145.0	252.8	260.0
Northern Ireland	4,925.9	5,165.0	239.1	5,455.6	5,659.2	5,858.1	21.0	132.6	151.4
Chancellor's departments	3,431.5	3,668.0	236.5	4,084.0	4,284.3	4,493.0	-128.0	34.8	90.3
Other departments	295.8	362.0	66.2	301.0	325.2	329.1	104.0	68.2	73.9
Reserve		0.0	0.0	3,500.0	7,000.0	10,500.0	-3,500.0	-3,500.0	-3,500.0
Privatisation proceeds	-5,160.5	-6,000.0	-839.5	-5,000.0	-5,000.0	-5,000.0	-1,000.0	0.0	0.0
Adjustment (5)		321.0	321.0	0.0	0.0	0.0	321.0		
PLANNING TOTAL	145,740.3	153,566.0	7,825.7	166,952.2	179,389.7	191,575.0	-3,302.0	-161.7	3,222.1
General government gross debt interest		17,600.0		17,100.0	16,000.0	15,800.0			
Other national accounts adjustments		9,400.0	1,100.0	9,300.0	9,200.0	8,700.0	1,300.0		
GENERAL GOVERNMENT EXPENDITURE				193,352.2	204,589.7	216,075.0			

Dept. - names appear again here

(1) The rounding and other conventions used in this table and Tables 1.7, 1.8 and 1.9 are as follows: plan figures are rounded to the nearest £10 mil except for social security (in this table and Table 1.7), the planning and spending authority totals (except public corporations) and general government expenditure which are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Debt interest and other national accounts adjustments for future years are rounded to the nearest £ billion. Outturn figures for 1988-89 have also been rounded to reflect their provisional nature. The changes and totals are based on the unrounded figures. They may therefore differ from the change sums of the rounded figures. In this and Tables 1.7, 1.8 and 1.9 some figures may be subject to detailed technical amendment before the publication of the 1989 public expenditure White Paper.

(2) Plans as set out in the last public expenditure White Paper (Cm 288) adjusted for minor changes of classification and allocation.

(3) Includes Intervention Board for Agricultural Produce and Forestry Commission.

(4) Legal departments comprise: the Lord Chancellor's Department, the Northern Ireland Court Service, the Crown Prosecution Service, the Serious Fraud Office and the Crown Office.

(5) An adjustment for the difference between the assessment of the likely outturn for 1988-89 and the sum of the other items shown.

Table 1.5

EXTERNAL FINANCING LIMITS FOR THE NATIONALISED INDUSTRIES 1989-90

	£million ¹
British Coal	560
British Railways Board	440
British Shipbuilders	-1
British Waterways Board	48
Civil Aviation Authority	47
Electricity (England and Wales)	-1300
Electricity (Scotland) ²	-60
London Regional Transport	287
Post Office	-91
Scottish Transport Group	-5
Water (England and Wales) ³	40
<hr/>	
TOTAL	-34
<hr/>	

¹ Figures are shown rounded to the nearest £1 million.

² From April 1989, the Scottish Electricity Boards will enter a revised trading relationship in preparation for privatisation. Separate EFLs for the two Boards will be determined when the new arrangements are established.

³ Allowance for external financing for the Regional Water Authorities. Figures will depend on the actual timing of the establishment of the National Rivers Authority (see paragraph 1.36) and privatisation during 1989-90.

TABLE 1.7: CENTRAL GOVERNMENT SPENDING (1)

£ million

	Latest estimates of outturn			New plans			Change from January 1988 White Paper(1)		
	1987 88	1988-89	CHANGE	1989-90	1990-91	1991-92	1988-89	1989-90	1990-91
	OUTTURN	ESTIMATED OUTTURN	1987-88 TO 1988-89	PLANS	PLANS	PLANS			
Ministry of Defence	18,862.2	19,300.0	437.8	20,098.2	21,138.8	22,042.8	79.0	129.8	564.2
FCO - Diplomatic wing	659.8	751.0	91.2	767.6	808.0	849.5	27.0	26.0	48.1
FCO - Overseas Development Administration	1,303.8	1,447.0	143.2	1,509.7	1,599.2	1,663.2	45.0	33.4	75.5
European Communities	1,663.8	950.0	-713.8	1,969.7	1,949.7	1,582.6	150.0	500.0	630.0
Ministry of Agriculture, Fisheries and Food	1,795.3	1,654.0	-141.3	1,707.0	1,909.7	2,093.3	-339.0	-397.9	-359.1
Department of Trade and Industry	899.6	1,821.0	921.4	1,333.9	1,281.9	1,133.4	557.0	73.5	81.2
Export Credits Guarantee Department	150.8	90.0	-61.0	135.4	99.6	59.5	-41.0	6.8	3.6
Department of Energy	565.0	527.0	-38.0	493.4	412.3	357.7	15.0	31.8	-22.4
Department of Employment	3,782.9	3,986.0	203.1	3,953.6	3,908.9	3,914.1	-125.0	-200.0	-300.0
Department of Transport	1,373.3	1,430.0	56.7	1,781.9	1,884.7	1,944.6	-27.0	289.2	350.9
DOE - Housing	1,301.1	1,385.0	83.9	1,381.0	1,624.2	1,919.2	65.0	-1.7	156.2
DOE - other environmental services	467.5	506.0	38.5	646.0	667.5	670.1	18.0	188.5	196.3
Home Office	991.9	1,148.0	156.1	1,434.0	1,568.4	1,562.6	32.0	257.6	366.3
Legal departments	793.3	955.0	161.7	1,079.0	1,168.6	1,240.7	-19.0	33.5	61.3
Department of Education and Science	2,693.7	2,970.0	276.3	4,279.1	4,399.8	4,463.1	31.0	268.7	282.0
Office of Arts and Libraries	368.9	420.0	51.1	438.9	452.9	482.9	3.0	4.1	1.6
Department of Health	16,653.8	18,385.0	1,731.2	19,721.3	20,825.8	21,728.7	836.0	1,247.0	1,468.0
Department of Social Security	42,522.2	43,628.0	1,105.8	46,335.3	50,164.0	53,180.9	-824.0	-508.6	1,098.9
Scotland (2)	3,458.6	3,805.0	346.4	3,826.0	4,053.3	4,209.9	111.0	100.1	185.0
Wales (2)	1,538.7	1,714.0	175.3	1,858.4	1,928.9	1,991.0	49.0	141.0	150.2
Northern Ireland (2)	3,799.4	4,061.0	261.6	4,282.3	4,461.0	4,626.0	63.0	106.3	119.8
Chancellor's departments	3,438.4	3,673.0	234.6	4,090.9	4,290.2	4,498.9	-130.0	34.8	90.3
Other departments	295.8	362.0	66.2	301.0	325.2	329.1	105.0	68.2	73.9
TOTAL	109,379.8	114,968.0	5,588.0	123,423.6	130,922.6	136,543.8	681.0	2,432.1	5,321.8

(1) See footnotes to Table 1.4. Figures exclude finance for public corporations.

(2) See paragraph 1.

TABLE 1.8: LOCAL AUTHORITY SPENDING (1)

£ million

	Latest estimates of outturn			New plans			Change from January 1988 White Paper		
	1987-88	1988-89	CHANGE	1989-90	1990-91	1991-92	1988-89	1989-90	1990-91
	OUTTURN	ESTIMATED OUTTURN	1987-88 TO 1988-89	PLANS	PLANS	PLANS			
Ministry of Agriculture, Fisheries and Food	179.1	189.0	9.9	220.8	226.2	233.2	-11.0	15.1	15.8
Department of Trade and Industry	86.3	96.0	9.7	104.8	107.3	109.7	5.0	10.0	10.0
Department of Employment	126.7	138.0	11.3	138.8	143.6	147.2	7.0	2.0	3.0
Department of Transport	2,530.3	2,558.0	27.7	2,750.5	2,819.2	2,904.1	-91.0	27.0	22.0
DOE - Housing	1,406.3	732.0	-674.3	313.7	381.5	393.1	-955.0	-1,226.0	-1,083.0
DOE - Other environmental services	3,229.8	3,872.0	642.2	3,746.3	3,664.5	3,776.6	500.0	285.0	119.7
Home Office	4,709.7	5,131.0	421.3	5,442.9	5,650.8	5,804.1	197.0	330.5	364.6
Department of Education and Science	14,387.4	15,470.0	1,082.6	15,291.5	15,839.4	16,310.9	438.0	597.7	716.0
Office of Arts and Libraries	519.9	561.0	41.1	537.1	555.5	571.8	64.0	23.0	26.0
Department of Health	3,049.5	3,343.0	293.5	3,433.7	3,552.8	3,658.9	219.0	208.0	231.0
Department of Social Security	3,727.1	3,973.0	245.9	4,634.7	5,077.8	5,464.6	-34.0	387.7	588.6
Scotland (2)	4,253.2	4,575.0	321.8	4,822.5	4,915.9	5,069.9	166.0	264.6	238.8
Wales (2)	1,714.0	1,780.0	66.0	1,834.8	1,892.4	1,953.6	97.0	108.4	118.5
Northern Ireland (2)	781.6	824.0	42.4	863.1	892.7	917.9	1.0	18.9	22.7
TOTAL	40,700.9	43,242.0	2,541.1	44,135.2	45,699.6	47,315.6	603.0	1,051.9	1,393.7
of which:-									
Relevant expenditure (3)	31,985.3	34,448.0	2,462.7	35,256.4	36,494.5	37,586.4	1,207.0	1,736.4	1,977.5
Other current	5,070.6	5,369.0	298.4	6,103.2	6,594.1	7,056.0	-39.0	430.2	649.1
Capital	3,644.7	3,425.0	-219.7	2,774.3	2,610.1	2,673.5	-566.0	-1,114.7	-1,232.9

(1) See footnotes to Table 1.4. Figures exclude finance to public corporations.

(2) See paragraph 1.

(3) Public expenditure relevant for Aggregate Exchequer Grant.

TABLE 1.9: PUBLIC CORPORATIONS (1) (2)

£ million

	Latest estimates of outturn			New plans			Changes from January 1988 White Paper		
	1987-88	1988-89	CHANGE	1989-90	1990-91	1991-92	1988-89	1989-90	1990-91
	OUTTURN	ESTIMATED OUTTURN	1987-88 TO 1988-89	PLANS	PLANS	PLANS			
FCO - Overseas Development Administration	-0.5	43.0	43.5	28.7	27.4	28.1	13.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	1.8	20.0	18.2	19.0	20.5	25.5	0.0	1.5	2.6
Department of Trade and Industry	-257.8	-212.0	45.8	-74.9	-47.6	-74.1	-106.0	80.8	104.1
Department of Energy	-346.8	-312.0	34.8	-738.8	-924.1	266.8	80.0	-95.0	-77.0
Department of Employment	5.2	1.0	-4.2	0.6	0.6	0.6	0.0	0.0	0.0
Department of Transport	682.5	825.0	142.5	825.2	836.3	807.5	-216.0	-73.5	-44.4
DOE - Housing	-10.4	-64.0	-53.6	-9.0	21.0	69.8	-77.0	-92.0	-92.0
DOE - Other environmental services	-57.3	7.0	64.3	53.5	209.9	234.2	7.0	4.9	122.4
Department of Health	12.4	10.0	-2.4	0.0	0.0	0.0	0.0	0.0	0.0
Scotland (3)	375.3	340.0	-35.3	346.0	223.4	445.6	-63.0	16.8	-9.3
Wales (3)	77.7	102.0	24.3	110.4	100.4	103.2	-1.0	3.4	-8.7
Northern Ireland (3)	344.9	280.0	-64.9	310.6	305.5	314.2	-43.0	7.4	8.9
Chancellor's departments	-6.9	-5.0	1.9	-6.9	-5.9	-5.9	2.0	0.0	0.0
				0.0	0.0	0.0		0.0	0.0
TOTAL (4)	820.1	1,035.0	214.9	894.4	767.4	2,215.5	-404.0	-145.7	6.6
of which:-									
Nationalised industries	267.9	396.0	128.1	-33.5	-396.1	983.8	-291.0	-0.5	-9.9
Other public corporations	552.5	639.0	86.5	927.9	1,163.7	1,231.8	-113.0	-145.2	16.5

(1) See footnotes to table 1.4.

(2) For nationalised industries and most public corporations the planning total includes their external finance. For nationalised industries' external financing limits for 1989-90, see Table 1.5.

(3) See paragraph 1.

(4) For nationalised industries to be privatised, provision is included as follows: British Steel until 1988-89; Water (England and Wales) until 1987-90; Electricity (England, Wales and Scotland) until 1990-91. Precise external financing requirements will depend on the timing of reorganisation and privatisations. Excluding these industries throughout, figures for the remaining industries are:

1,660.0	1,660.0	0.0	1,290.0	1,130.0	980.0	-30.0	-160.0	-240.0
---------	---------	-----	---------	---------	-------	-------	--------	--------

Table 1.10 Public expenditure by department, 1978-79 to 1991-92(1)

	£ billion										
	1978-79 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans	1991-92 plans
Ministry of Defence	7.5	14.4	15.5	17.2	18.0	18.2	18.9	19.3	20.1	21.1	22.0
FCO - Diplomatic wing	0.3	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8
FCO - Overseas Development Administration	0.8	1.0	1.2	1.2	1.2	1.3	1.3	1.5	1.5	1.6	1.7
European Communities	0.8	0.6	0.8	1.0	0.8	1.1	1.7	1.0	2.0	1.9	1.6
Ministry of Agriculture, Fisheries and Food(2)	0.8	1.8	2.0	2.0	2.4	1.8	2.0	1.9	1.9	2.2	2.4
Department of Trade and Industry	1.8	1.9	1.5	1.6	1.5	2.1	0.7	1.7	1.4	1.3	1.2
Export Credits Guarantee Department	0.4	0.3	0.3	0.5	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Department of Energy	0.6	0.9	1.1	2.6	0.7	-0.2	0.2	0.2	-0.2	-0.5	0.6
Department of Employment	1.1	2.4	2.9	3.1	3.4	3.9	3.9	4.1	4.1	4.1	4.1
Department of Transport	2.6	4.3	4.3	4.6	4.6	4.7	4.6	4.8	5.4	5.5	5.7
DOE - Housing	3.6	2.7	3.2	3.3	3.0	2.8	2.7	2.1	1.7	2.0	2.4
DOE - Other environmental services	2.3	3.6	3.8	4.0	3.9	4.0	3.6	4.4	4.5	4.5	4.7
Home Office	1.9	3.8	4.1	4.7	4.7	5.1	5.7	6.3	6.9	7.2	7.4
Legal departments(3)	0.2	0.4	0.4	0.5	0.6	0.7	0.8	1.0	1.1	1.2	1.2
Department of Education and Science	7.7	12.7	13.4	13.9	14.4	15.7	17.1	18.4	19.6	20.2	20.8
Office of Arts and Libraries	0.3	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.1
Department of Health	7.4	13.9	14.7	15.8	16.6	17.9	19.7	21.7	23.2	24.4	25.4
Department of Social Security	16.4	32.5	35.2	38.1	41.5	44.4	46.2	47.6	51.0	55.2	58.6
Scotland	3.9	6.5	6.8	7.1	7.2	7.7	8.1	8.7	9.0	9.2	9.8
Wales	1.6	2.5	2.7	2.7	2.8	3.1	3.3	3.6	3.8	3.9	4.0
Northern Ireland	2.2	3.6	3.8	4.1	4.4	4.6	4.9	5.2	5.5	5.7	5.9
Chancellor's departments	1.4	2.6	1.6	2.6	2.8	3.2	3.4	3.7	4.1	4.3	4.5
Other departments	0.4	0.6	0.9	0.2	0.2	0.2	0.3	0.4	0.3	0.3	0.3
Reserve									3.5	7.0	10.5
Privatisation proceeds		-0.5	-1.1	-2.2	-2.7	-4.5	-5.2	-6.0	-5.0	-5.0	-5.0
Adjustment(4)								0.3			
Planning total	65.7	113.6	120.4	129.9	133.8	139.3	145.7	153.6	167.1	179.5	191.7
General government gross debt interest	7.4	13.9	14.5	16.1	17.7	17.6	17.5	17.7	17.0	16.0	16.0
Other national accounts adjustments	1.8	5.2	5.5	4.7	6.7	7.5	8.2	9.4	9.0	9.0	9.0
General government expenditure	75.0	132.6	140.4	150.6	158.2	164.4	171.5	180.6	193.5	204.7	216.2
General government expenditure (excluding privatisation proceeds)	75.0	133.1	141.6	152.8	160.9	168.9	176.7	186.6	198.5	209.7	221.2
- as a percentage of GDP	43%	46%	45%	46%	44%	43%	41%	39%	39	38%	38%
Money GDP	173.0	284.7	308.6	330.5	361.1	385.7	424.5	471	509	540	569

(1) See footnote (2) to Table 1.4.

(2) See footnote (4) to Table 1.4.

(3) See footnote (5) to Table 1.4.

(4) See footnote (7) to Table 1.4.

Table 1.11 Public expenditure in real terms(1) by department, 1978-79 to 1991-92(2)

	£ billion (base year 1987-88)										
	1978-79 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans	1991-92 plans
Ministry of Defence	15.4	18.1	18.7	19.7	19.5	19.1	18.9	18.2	18.0	18.3	18.5
FCO - Diplomatic wing	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FCO - Overseas Development Administration	1.6	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4
European Communities	1.5	0.7	1.0	1.1	0.9	1.1	1.7	0.9	1.8	1.7	1.3
Ministry of Agriculture, Fisheries and Food(3)	1.6	2.3	2.4	2.3	2.6	1.9	2.0	1.8	1.7	1.9	2.0
Department of Trade and Industry	3.7	2.4	1.8	1.8	1.7	2.2	0.7	1.6	1.2	1.2	1.0
Export Credits Guarantee Department	0.7	0.4	0.3	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1
Department of Energy	1.1	1.1	1.3	3.0	0.7	-0.2	0.2	0.2	-0.2	-0.4	0.5
Department of Employment	2.2	3.0	3.5	3.6	3.7	4.1	3.9	3.9	3.7	3.5	3.4
Department of Transport	5.4	5.5	5.2	5.3	5.0	4.9	4.6	4.5	4.8	4.8	4.8
DOE - Housing	7.3	3.4	3.8	3.7	3.2	3.0	2.7	1.9	1.5	1.8	2.6
DOE - Other environmental services	4.6	4.5	4.6	4.5	4.3	4.2	3.6	4.1	4.0	3.9	3.9
Home Office	3.8	4.7	5.0	5.3	5.2	5.4	5.7	5.9	6.2	6.2	6.2
Legal departments(4)	0.3	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.0	1.0
Department of Education and Science	15.9	16.0	16.2	16.0	15.7	16.5	17.1	17.4	17.5	17.5	17.5
Office of Arts and Libraries	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Department of Health	15.2	17.5	17.7	18.1	18.1	18.9	19.7	20.5	20.8	21.1	21.3
Department of Social Security	33.7	40.9	42.4	43.7	45.1	46.8	46.2	44.8	45.7	47.8	49.3
Scotland	8.0	8.2	8.2	8.2	7.9	8.1	8.1	8.2	8.1	8.0	8.2
Wales	3.2	3.2	3.2	3.1	3.0	3.2	3.3	3.4	3.4	3.4	3.4
Northern Ireland	4.4	4.5	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.9	4.9
Chancellor's departments	3.0	3.3	1.9	3.0	3.1	3.3	3.4	3.5	3.7	3.7	3.8
Other departments	0.8	0.8	1.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Reserve									3.1	6.1	8.8
Privatisation proceeds		-0.6	-1.4	-2.5	-2.9	-4.7	-5.2	-5.6	-4.5	-4.3	-4.2
Adjustment(5)								0.3			
Planning total	134.9	143.0	145.0	148.9	145.6	146.7	145.7	144.5	149.8	155.5	161.2
General government expenditure	153.8	167.0	169.2	172.7	172.1	173.1	171.5	170.0	173.4	177.3	181.8
General government expenditure (excluding privatisation proceeds)	153.8	167.6	170.5	175.2	175.0	177.8	176.7	175.7	177.9	181.6	186.0
GDP deflator (% increase on previous year)		7.1	4.6	5.1	5.4	3.3	5.3	6¼	5	3½	3

(1) Cash figures adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator.

(2) See footnote (2) to Table 1.4.

(3) See footnote (4) to Table 1.4.

(4) See footnote (5) to Table 1.4.

(5) See footnote (7) to Table 1.4.

*What has happened
to tables 2.1 & 2.2
The last year's AS?
Then SW for omitted
& can replace the push tables
1.1.3.2*

APH

I have recorded Turnbull comments
in blue. Some of them are
sanitised versions of CST's earlier
ones

Meitz

SECRET AND PERSONAL

SCORECARD

COPY NO 1 OF 13 COPIES

From: J ODLING-SMEE

26th October 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Sir Terence Burns
Mr Sedgwick
Mr Turnbull
Mr MacAuslan
Miss Simpson
Mr Call
Mr Tyrie

AUTUMN STATEMENT: ORAL STATEMENT

I attach a revised version of the Oral Statement which I sent on 21 October. It incorporates a number of minor changes indicated by sidelines, but does not attempt to take account of the Chief Secretary's proposals. You were hoping that the Chancellor would work from this version.

JOS

J ODLING-SMEE

AUTUMN STATEMENT: ORAL STATEMENT

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

2. Cabinet today agreed the Government's public expenditure plans for the next three years. I am therefore able to make my traditional Autumn Statement to the House this afternoon covering ^{the usual} three elements: the Government's outline public expenditure plans for the next three years and the expected outturn for this year; proposals for national insurance contributions next year; and the forecast of economic prospects for 1989 required by the 1975 Industry Act.

3. The main public expenditure figures together with the full text of the economic forecast and the rest of the information customarily published with this Statement will be available from the Vote Office as soon as I have sat down. They will also appear in the printed Autumn Statement which will be published next Tuesday.

Public Finances 1988-89

4. I turn first to the expected outturn for the current financial year, 1988-89.

5. The public expenditure planning total now looks likely to amount to £[154] billion, or about £[3] billion less than was allowed for in ^{the} last year's Public Expenditure White Paper. About half the shortfall is accounted for by higher receipts, from the

privatisation programme and by local authorities and new towns. The balance [of the shortfall] is attributable to lower spending on programmes, particularly social security, reflecting ^{in part} the sharp fall in unemployment.

6. Public spending as measured by general government expenditure is also likely to be less than expected in the White Paper. Together with the strong growth of the economy this year, this means that the ratio of expenditure excluding privatisation proceeds to gross domestic product will be below 40 per cent for the first time ^{prop'n of nat. income spent by state going in PX...} in over two decades. It is down nearly 7 percentage points since ^{since 1966-67.} 1982-83, the largest and longest sustained fall since the wartime economy was unwound. This has [firmly] reversed what once seemed like the irresistible growth of the state's spending of the public's money.

7. On the receipts side, total government revenues are likely to exceed the Budget forecast by almost £4 billion. This is primarily the result of higher than forecast economic growth. VAT and income tax have in particular been more buoyant than expected.

8. At the time of the Budget, I set a Public Sector Debt Repayment - or PSDR - for 1988-89 of £3 billion, equivalent to $\frac{3}{4}$ per cent of GDP. As a result of higher government revenues and lower than expected public expenditure I now expect the PSDR this year to be £10 billion, equivalent to $2\frac{1}{4}$ per cent of GDP. Even ^{without...} when it is adjusted to remove the effects of privatisation proceeds, there is likely to be a substantial budget surplus of £4 billion making this year only the second since the beginning of the 1950s when an equivalent surplus has been achieved.//

Only tight fiscal policy by any std. 1st time since [when] 2 yrs in a row. [Only 67 country in surplus].

*Redraft.
£2 in
every 25.
Secured out
to scar.*

9. [Some people have been saying that developments in the economy this year show that the tax reductions I announced in my Budget were too great. I find this view impossible to understand in the light of the very high levels of tax receipts and debt repayment I am expecting for the year as a whole, *show how ill-informed is the comment that the tax reductions announced in the Budget were too great.*

10. A PSDR of the size now expected has clear implications for the authorities' operations in the gilts market. I remain firmly committed to funding fully the net total of maturing debt, the public sector borrowing requirement and any underlying change in our foreign exchange reserves, as I made clear at Budget time. But when the PSBR is in fact a very large PSDR, we no longer have to *make net sales of* sell *them...* gilts. We actually need to buy them in - and on a substantial scale. [To assist in this process of redeeming debt, the Bank of England will be adding a new weapon to their funding armoury - the reverse gilt auction - for use if necessary. They will be announcing details in due course.]

Expenditure Plans 1989-90 to 1991-92

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

12. In July, Cabinet set itself the objective of keeping as close as possible to the existing planning totals, and of ensuring that public spending as a proportion of national income continued to fall from the level already reached. The plans that I am about to announce *meet both of* secure those objectives.

[Strong growth... enabled us to secure
do while remaining within...]

unchanged at £167.1 bn.

13. The planning total for 1989-90 will be £[167] billion, ~~that is unchanged from the previous plans.~~ The planning totals for 1990-91 will be £[179½] billion, an increase of £[3½] billion on last year's plans and that for 1991-92 will be set at £[191½] billion.

14. These totals include the same ^{prudent levels} profile for the Reserves as in the previous plans, £3½ billion for the first year, rising to £10½ billion in the third. The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

15. Between 1978-79 and ¹⁹⁸⁸⁻⁸⁹ 1987-88 public spending has grown by [1.6] per cent a year, compared with 2.9 per cent in the decade before that. In the succeeding ^{three} four years, that is [the current year plus ^{on average} the three survey years, public spending will grow in real terms by ^L 1½ per cent, well within the prospective growth of the economy as a whole. This maintains the steady rate of growth projected in the last White Paper. In consequence public spending will continue to decline as a proportion of national income, reaching 39 per cent by 1991-92, the lowest since the mid-1960s.

16. Despite holding ~~to~~ the planning total for next year within the previously announced totals, ^{these new plans enable us to provide substantial} the government has been able to provide substantial additional resources for a number of priority programmes. In each case the figures I am about to give represent increases over the plans published in the last Public Expenditure White Paper.

performance of the economy before to bring about this ^{additional resources to implement the Govt's most important priorities. The ^{improved} ~~higher~~ than ever} substantial shift of resources to meet our pol...

SECRET AND PERSONAL

17. First, health. An extra £1.2 billion is being provided for the National Health Service in England ^{alone} in 1989-90 and an extra £1.4 billion in the following year. ^[What about the rest?] On top of that, the Health Service will benefit from an extra £150 million in 1989-90 and £300 million in the following year from a new round of cost improvement programmes; and an extra £100 million a year from sales of surplus land. In addition, following a report from the Government Actuary which is being published today, employers' superannuation contributions will be reduced, which will save the Health Service nearly £300 million a year. Taken together, these sums of £1½ billion in 1989-90 and over £2 billion in the following year represent ^{by far} the largest increase in resources ever made available to the Health Service.

18. Second, law and order. An extra ^{£240} ~~£285~~ million has been made available in 1989-90 and ^{£370} ~~£310~~ million in 1990-91, principally for a further expansion in the prison building programme. Between 1987-88 and 1991-92 this will provide over 3,000 extra places. Provision for local authority spending on the police has also been increased by over £250 million.

19. Third, housing. Gross provision for housing investment is being increased by over £400 million a year. Total public sector investment, mostly on renovation and new building, ^{[What's the reason?] is set to} will now be running at about £4½ billion a year.

20. Fourth, transport. An extra ²²⁰ ~~£[225]~~ million is being made available next year for motorway and trunk road construction and repair and for bridge strengthening and an extra ~~£[280]~~ ²⁵⁰ million in the following year.

21. Fifth, spending on defence is to be increased by £100 million in 1989-90 and £500 million in 1990-91.

See CS7 redraft.
22. Sixth, social security. Large increases are expected in spending on benefits, particularly for the disabled, and special assistance for poorer families is being significantly improved. These increases are partly offset by the fall in unemployment and the decision not to uprate child benefit, leaving the social security programme broadly unchanged in 1989-90 but around [£1.2 billion] higher than planned in 1990-91.

Turn this round.
23. As announced last year, the Government has examined its priorities for science and technology in the context of this year's Public Expenditure Survey. In areas of low priority, including near market research, public support will be reduced. There will be savings over the Survey period as a whole within the Energy, Agriculture and Trade & Industry programmes. There will, however, be substantially larger additions to DES spending on science and technology, amounting to at least £120 million a year. Among other things this will allow increases of 16 per cent in the science budget and 20 per cent in spending on basic science between this year and next.

24. Taking account of other programmes as well as those I have mentioned, additions to planned capital spending, for the public sector as a whole are likely to amount to some £ billion next year. [Sentences on main increases.]

CS7 capital para.

see over

The new plans contain
an increase of £x in capital spending .

This includes extra investment for

hospitals, housing, prisons + roads In
addition there is provision for ^{investment} £ by the

N ——— lnds, including anti-pollution
measures by the Water Authorities —

+ safety measures by London Regional
Transport.

SECRET AND PERSONAL

25. That the Government has been able to strengthen its priority programmes while holding to baseline in the first year is, in large measure, a reflection of the success of its policies. The large reduction in unemployment has made possible savings on social security and also on employment and training measures; the success of the Right to Buy policy and the Government's efforts to encourage local authorities to sell surplus assets have mobilised substantial additional capital receipts; its efforts to bring greater financial discipline to the Common Agricultural Policy have produced savings; the improved trading results of the nationalised industries have reduced their call on the Exchequer. Finally, the achievement of a large budgetary surplus is reducing the cost of servicing the national debt.

AT is happy with CST's amendments to para 25.

26. The details of these and other changes are provided in the material in the Vote Office. Further information will be contained in the printed Autumn Statement next week. As indicated in the White Paper on "Financial Reporting to Parliament" (Cm 375) the section on public spending in the printed Autumn Statement will be expanded so that it includes nearly all the information on the general picture previously found in Chapter 1 of the Public Expenditure White Paper. The role of the latter, which will appear early in the New Year, will be principally to elaborate the information on departmental programmes. Rather than one large volume covering all departments, it is proposed to make each departmental chapter available separately. This will not only provide a stepping stone to the eventual production of departmental reports, a development which a number of Select Committees have promoted, but will also benefit those whose interest is confined to a particular programme.

Sae
CST
redraft.

CST
redraft.

✓
AT is happy to delete as CST suggests

v. sensitive
generated
brought

more details

published

National Insurance Contributions

27. I turn now to National Insurance Contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my Rt Hon Friend the Secretary of State for Social Security made on 27 October.

28. The lower earnings limit will be increased next April to £43 a week, in line with the single person's pension, and the upper earnings limit will be raised to £325 a week. The limits for the reduced rate bands will also be increased to £[75] a week and £[110] a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £[160] a week.

29. In recent years, we have pursued a consistent policy of steadily reducing^{ed} the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. This currently stands at 5 per cent. We now propose to carry this policy forward to its logical conclusion and to abolish the Supplement, subject to Parliament approving the necessary provisions in the Social Security Bill which my Rt Hon Friend will be placing before the House in the forthcoming Session. However, in view of the healthy state of the National Insurance Fund, this decision will not require any change in contribution rates. Thus, the main Class I contribution rates will ^{remain} ~~once again be~~ unchanged at 9 per cent for employees and 10.45 per cent for employers.

The Industry Act Forecast

30. Finally I turn to the Industry Act Forecast. Growth in domestic spending this year has significantly exceeded my expectations at budget time, and indeed the expectations of nearly everyone else. It would be quite wrong to play down the size of this under prediction, and I do not seek to do so. And indeed it is little comfort that so many others made similar errors.

31. I have taken the necessary steps to counter the adverse effects of this higher spending by substantially raising interest rates. This will in time lead to the necessary correction. In 1988, however, this strength of domestic spending has had important consequences for economic growth, inflation and the balance of payments and I will deal with these in turn.

32. Growth of GDP this year is likely to turn out at 4½ per cent, compared with the 3 per cent I expected at the time of the Budget. This implies growth of the non-oil economy of 5 per cent, a growth rate not achieved for fifteen years. Indeed the seven years to 1988 will turn out to be [one of] the most [satisfactory] seven year period(s) with high growth at a steady rate since the war. [This may not be true: we are checking.]

33. This strong growth performance has enabled unemployment to continue to fall rapidly. Since mid-1986 unemployment has fallen by just under a million, or 3½ per cent of the labour force. No other major country has a comparable record over this period.

SECRET AND PERSONAL

34. Higher spending and output this year have had an unwelcome effect on inflation which has been edging up. As far as the RPI is concerned this rise in inflation has been artificially increased by the effect of higher interest rates, which are essential to reduce inflation. [Few other countries measure consumer price inflation in this misleading way.] RPI inflation is likely to be just over 6 per cent in the fourth quarter of this year.

35. The faster than expected domestic spending has contributed also to a very large rise in the volume of imports, which was 13 per cent higher than a year ago in the third quarter of this year. Thus while exports have broadly maintained their share of world trade the current account deficit has turned out to be a good deal larger than expected. I expect the deficit to be £13 billion this year, equivalent to $2\frac{1}{4}$ per cent of GDP.

36. Economic forecasting is particularly difficult in current circumstances. Activity and inflation have been higher than expected this year: at the same time I have tightened monetary conditions significantly and the effects of that tightening have not yet been recorded. It is always especially difficult to predict turning points.

37. The economy is forecast to grow by 3 per cent in 1989. As production of North Sea oil will be declining this implies growth of $3\frac{1}{2}$ per cent for the non-oil economy. I expect the growth of consumers' expenditure to be a good deal lower than this year at $3\frac{1}{2}$ per cent. The personal sector has borrowed heavily in recent years

SECRET AND PERSONAL

and there are already some signs that the current high level of interest rates is leading to more cautious behaviour. In these circumstances I expect the savings ratio to begin to recover.

38. The welcome boom in business investment, which has such important and beneficial implications for the supply potential of the economy, should continue. But I expect a much smaller year on year growth in business investment in 1989 of 7 per cent, down from 13 per cent in 1988. Total domestic demand should rise at about 3 per cent, half of the growth in the current year.

39. While there could well be some further rise in inflation in the first half of next year, I expect it to be (firmly) on a downward trend in the second half of the year and to reach 5 per cent by the fourth quarter.

40. I have already made clear that the current account of the balance of payments is likely to be one of the last indicators to adjust to the tightening of monetary policy. My forecast is for a deficit of £11 billion in 1989, but the deficit should be declining during the year.

41. Thus the economy will be entering a new phase of somewhat slower growth over the next twelve months or so. This will bring with it a reversal of the recent upward movement in inflation and in due course the current account deficit will also decline.

Conclusion

42. The Government's sound financial policies are playing an important role in maintaining the economy on a stable course. The increases in interest rates in the summer were essential to keep inflation under control. The public finances are in a very strong position, and the expenditure plans I have just announced will ^{ensure} keep ^{they remain} them that way.

Ch
 Would be worth trying
 to get 39^{3/4}/39^{1/4} / 39/38^{3/4}
 Diff to put up spending by enough,
 but we could also have a
 touch of money GDP.

see last table.

SCORECARD

COPY No 1 OF 23 COPIES

FROM: A TURNBULL
DATE: 26 OCTOBER 1988

1. MR ANSON

2. CHANCELLOR OF THE EXCHEQUER +1

cc Chief Secretary +1
 Sir P Middleton
 Sir T Burns
 Mr Phillips
 Mr Monck
 Mr Luce
 Mr Odling-Smee
 Mr Sedgwick
 Mr MacAuslan
 Mrs Butler
 Mr Richardson
 Mr Hansford
 Mr Gieve
 Mr Pickford
 Miss Walker
 Mr Call
 Mr Tyrie

I have already discussed these proposals with GEP. I think they add up to a satisfactory package, and I hope you will approve them.

NA @
 Env. Mr.

VA
 26/10

FINALISING THE SURVEY

This submission examines the variables still to be settled and makes recommendations on the figures for the planning total, GGE and the path for the GGE/GDP ratio that we present in the Autumn Statement. To do this we need to settle:

- Reserves
- Debt Interest
- Other national accounts adjustments
- Money GDP
- The 1988-89 outturn

2. We suggest several objectives:

i. to show a planning total at baseline in 1989-90 and an increase below £3½ billion in 1990-91;

ii. to keep the rate of growth of GGE excluding privatisation proceeds at no more than 1½ per cent per annum. To do this we need to use 1987-88 as the base, scoring the current year as part of the period. This is the same convention as last year. It also makes sense given the uncertainty surrounding the 1988-89 outturn;

iii. to show as large a decline in the ratio after 1988-89 as possible;

iv. all this is constrained by the need to set Reserves which will be adequate in 1989-90 and which give us a fighting chance of holding to baseline in the next Survey.

3. The starting point is the additions to programmes shown by the GEP scorecard, following final checking and incorporation of the effects of revised economic assumptions. These now stand at:

+3.5 +6.8 +11.2

Reserves

4. After two years of underspend, it could be argued that a starting Reserve of less than £3.5 billion was justified. But the ^{unanticipated} fall in unemployment is unlikely to be repeated and the higher level of local authority receipts has already been built into the plans. Also a Reserve below £3.5 billion would show a cut in the planning total. The economic forecast pointed to the need for a higher Reserve. It showed the planning total with a Reserve of £3.5 billion being overshoot by £1.7 billion. About £1 billion of this gap is likely in practice to be met by over fulfilment of the privatisation programme. Also the overspend on cash limited programmes such as health and defence may not be quite as large as the forecasters project. We conclude, therefore, that a Reserve of £3.5 billion should be set for year 1.

5. The remaining issue is the size of steps in the remaining two years which determine how much is available for distribution to programmes in the next Survey. This year £3.5 billion proved (to our surprise) to be adequate but the forecasters, though in a framework with much greater inflation, think a Reserve much larger than £7 billion would be needed to avoid raising the planning total in the next Survey. One possibility would be £3.5/7.5/11.5 billion, ie steps of £4 billion. There are disadvantages, however, in setting Reserves too high. The ratio would show no fall after 1989-90. They also signal to the outside world that we do not believe our inflation assumptions.

6. The arguments, therefore, point to repeating the £3.5/7.0/10.5 billion pattern of the last Survey, subject to producing a satisfactory outcome overall - see below.

The 1988-89 Outturn

7. Mr Richardson's submission of 24 October recommended publishing an outturn for the planning total of £153.6 billion, an underspend of £3.3 billion. You asked us to consider showing a longfall of £500 million rather than £320 million and underspending of £3.1 billion. As set out in Mr Richardson's minute, we already face some difficulty in explaining this adjustment as there is no factor of any size we can refer to other than Shorts, which we do not want to reveal. To say that we have provided for a large commercially sensitive transaction which we cannot name would set off all sorts of speculation.

8. It has become clear in the last few days that the outturn for the GGE/GDP ratio in 1988-89 will fall below 40 per cent. This reflects both lower expenditure and higher money GDP. The choice lies between rounding to 39½ and 39¾ per cent.

9. You have a choice:

- showing the largest possible fall in 1988-89, with a smaller fall over the Survey period; or
- a smaller fall in 1988-89 but a larger fall over the Survey.

Our preference is for the latter since it will still allow you to claim an outturn below 40 per cent.

10. The unvarnished figures are in fact marginally closer to 39½ per cent and your proposal would move us in the right direction back towards 39¾ per cent. By pulling and pushing the national accounts adjustments we can get the figures round to 39¾ per cent without pushing up longfall. But 40 per cent is out of reach. Would you be content therefore to retain £153.6 billion as the outturn with a longfall of £330 million?

I have no wish to push this; but my purpose was to avoid a fig like £320m or £330m, which is a percentage of £500m.

I agree that it is better to do this through the NAA as Mr Turnbull proposes.

VA

Debt interest

11. The last variable of significance is debt interest. Mr Odling-Smee's minute of 21 October set out a number of variants. Table 1 updates the results. Constant nominal debt interest can be rejected as producing a rising trend for the GGE/GDP ratio. Assuming the PSDR constant at the 1988-89 proportion of GDP for all years produces the strongest downward path. We do not recommend it as it is inconsistent with our claim that we do not revise the MTF5 mid-year. It also carries the risk of having to be revised upwards in the Budget.

12. The choice is between the figures in the MTF5, which were published as £17 billion and £16 billion in the last two years; or continuing with the usual Autumn Statement convention that the PSDR next year is the same proportion of GDP as this year and zero thereafter. The existing MTF5 figures produce a slightly more pleasing path, as there is a fall in the last year, whereas the Autumn Statement convention falls further earlier but shows a plateau.

13. We can, however, with a little juggling of the figures reproduce the 39¾/39/39/38¾ line using the Autumn Statement convention. (This would involve pumping up the national accounts adjustment marginally and setting debt interest at £16.2 billion which would still be published as £16 billion.) Our preference is for this solution. It produces a real terms growth rate, over the four years from 1987-88 to 1991-92 of 1.28 per cent, which rounds satisfactorily to 1¼ per cent.

Conclusions

14. We recommend presenting the following:

i. 1988-89 outturn for the planning total at £153.6 billion with adjustments at £330 million. The GGE/GDP ratio is 39¾ per cent.

ii. Reserves of £3.5/7.0/10.5 billion.

iii. Planning totals of £167.1 billion in 1989-90, ie baseline; £179.4 billion in 1990-91 ie plus £3.3 billion; and £191.6 billion in 1991-92.

iv. National accounts adjustments of £9.6/9.3/9.3/8.8 billion, rounded in the three Survey years to 9.5/9.5/9..

v. Gross government debt interest at £17.7/16.9/16.2/15.6 billion, rounded in the three Survey years to 17/16/15.5. The underlying assumption is that the PSDR in 1989-90 is the same proportion of GDP as in 1988-89, thereafter zero.

vi. A path for the GGE/GDP ratio of 39¼/39/39/38¼.

vii. Money GDP figures of 471/509/540/570.

The detailed figures are set out in the Table 2.

This is a (good) account. However, it wd be a pity to spend it wd on 1989-90. This can most likely be achieved by (a) show £1 bn off 1988/89 (508) and (b) adding 2 1/2 bn to 1989/90 of 1988. Other than CGEXPP

AT

A TURNBULL

CGEXPP

TABLE 1

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1988 MTFS					
PSDR	3	3	0	0	0
Gross debt interest (% of money GDP)	17.5 (4.1)	17.5 (3.7)	17.1 (3.4)	16.9 (3.1)	16.4 (2.9)
GGE/GDP ratio (%) ⁽¹⁾		39.62	39.98	39.00	38.90
Rounded to		39½	39	39	39
Usual AS convention					
PSDR	3.5	10	11	0	0
Gross debt interest (% of money GDP)	17.5 (4.1)	17.7 (3.8)	16.9 17.2 (3.4)	16.2 ⁽²⁾ (3.0)	15.6 (2.8)
GGE/GDP ratio (%)		39.66	38.94	38.87	38.76
Rounded to		39½	39	39	38¾
Alternative PSDR path					
PSDR	3.5	10	11	12	12
Gross debt interest (% of money GDP)	17.5 (4.1)	17.7 (3.8)	16.9 (3.3)	15.7 (2.9)	14.4 (2.6)
GGE/GDP ratio (%)		39.66	38.94	38.78	38.55
Rounded to		39½	39	38¾	38½
Constant nominal debt interest					
Gross debt interest (% of money GDP)	17.5 (4.1)	17.7 (3.8)	17.1 (3.3)	17.1 (3.2)	17.1 (3.0)
GGE/GDP ratio (%)		39.66	39.98	39.04	39.02
Rounded to		39½	39	39	39
Memo: Money GDP	424	471	509	540	570

(1) Based on current planning total and GDP projections, not those in MTFS

(2) £16.0 before adjustment producing 38¾ per cent for the ratio - see paragraph 2 of minute

TABLE 2

SURVEY OUTCOME

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Planning total baseline	156.9	167.1	176.1	183.8
Addition to programmes	0.2	0.0 ^{3.5}	6.8	11.2
less starting Reserves	-3.5	-7.0	-10.5	-14.0
plus new Reserves	-	3.5	7.0	10.5
equals New Planning Total	153.6	167.1	179.4	191.6
plus Gross debt interest	17.7	16.9	16.2	15.6
plus National accounts adjustments	9.6	9.3	9.3	8.8
equals GGE	180.9	198.3	205.0	216.0
less Privatisation proceeds	-6.0	-5.0	-5.0	-5.0
equals GGE ex pp	186.9	198.3	210.0	221.0
Real terms growth rate	-0.4	1.0	2.3	2.2
Money GDP	471	509	540	570
GGE/GDP ratio	39.66	38.94	38.88	38.76
GGE/GDP rounded	39½	39	39	38¾

39.125

⇒ GGE ex pp

A 199.15

ie + 0.85 bn

or ⇒ money GDP of 506.8

508.2

170

(⇒ money GDP growth 7.6 6.6

versus (with 509) 8.1 6.1

Possible compromise:	planning total	167.1
	debt interest	17.1
	NAA	9.5
	GGE	193.7
	less PP	+ 5.0
		<u>198.7</u>

money GDP 507.8 ←
GGE/GDP ratio 39.125

SCORECARD
COPY NO. 9 OF 14. *mp*
*ada*FROM: S J PICKFORD
DATE: 26 OCTOBER 1988

MR ODLING-SMEE

cc Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr H Phillips
Mr Sedgwick
Mr Turnbull
Mr A C S Allan
Mr Gieve
Mr MacAuslan
Miss C Evans
Miss Simpson

AUTUMN STATEMENT BRIEFING

We are in the process of assembling the Autumn Statement brief, and hope to circulate a full version in draft tomorrow night to Ministers for comment. A full list of the briefs is attached.

2. There are a number of key strategy briefs. I attach a copy of briefs:

- A1 Strategy
- B1 Industry Act forecast
- C1 Fiscal policy: 1988-89 to 1991-92
- E1 Public expenditure: 1988-89
- E2 Public expenditure: 1989-90 to 1991-92.

These drafts are still being worked on by Divisions and EB, and there may be inconsistencies between them. Also the numbers are in many cases not finalised yet. Nevertheless we would be grateful for any comments before they go to Ministers.

3. Given the extremely tight timetable we are operating under, in order to incorporate changes in the versions submitted tomorrow night we must have urgent comments as early as possible tomorrow (Thursday), and no later than lunchtime. Less pressing comments can be incorporated over the weekend.

Steph Pickford

S J PICKFORD

1988 AUTUMN STATEMENT

Lead Division Consulting

MAIN BRIEF

A STRATEGY AND KEY POINTS

A1	Strategy	EB	GEP1
A2	Summary of main points	EB	GEP1

B ECONOMIC BACKGROUND

B1	Industry Act forecast of the UK economy	EA1	EB
----	---	-----	----

C FISCAL AND MONETARY POLICY

C1	Fiscal policy: 1988-89 to 1991-92	MP1	
C2	Revenue prospects: 1988-89	PSF	FP
C3	Monetary policy	MG1	

D NATIONAL INSURANCE

D1	National insurance contributions	ST1	
----	----------------------------------	-----	--

E PUBLIC EXPENDITURE : GENERAL

E1	Public expenditure: 1988-89	GEP2	
E2	Public expenditure: 1989-90 to 1991-92	GEP1	
E3	Public expenditure: historical statistics plans and international comparisons	GEP3	

SUPPLEMENTARY BRIEF

BB ECONOMIC BACKGROUND

BB1	UK economy: recent developments	EB	EA1
BB2	World economy and international comparisons	IF2	EB
BB3	Balance of payments, oil and competitiveness	EA2	
BB4	Manufacturing industry in UK	EB	

CC	FISCAL AND MONETARY POLICY		
CC1	Public sector borrowing: historical statistics and international comparisons	PSF	
CC2	Tax ready reckoner	ETS	
CC3	Interest and exchange rates	MG1	
EE	PUBLIC EXPENDITURE: SPECIFIC BRIEFS		
EE1	Defence	DM1	
EE2	Overseas Development Administration and Foreign & Commonwealth Office (Diplomatic Wing)	AEF1	
EE3	Net payments to European Community Institutions forestry	EC1 IAE1	
EE5	Trade and Industry	IAE2	
EE6	Export Credits Guarantee Department	AEF2	
EE7	Energy	PE1	
EE8	Employment	IAE3	
EE9	Transport	HE1	
EE10	Housing (England)	LG2	
EE11	Other environmental services, including inner cities	LG2	LG1, IAE2
EE12	Home Office	HE1	
EE13	Lord Chancellor's Department and Legal Departments	HE1	
EE14	Education and Science	HE2	
EE15	Arts and Libraries	HE2	
EE16	Health and Personal Social Services	ST2	
EE17	Social security	ST1	
EE18	Other Departments	GEP1	various
EE19	Scotland, Wales, Northern Ireland	ST3	
EE20	Chancellor's Departments	ST3	EOG1, MG1, FIM1, FP
EE21	Departmental running costs	RCM	Pay 1
EE22	Value for money	FM	
EE23	Nationalised industries	PE2	
EE24	Privatisation	PE2	
EE25	Science and Technology	HE2	IAE1 & 2
EE26	Local authority current	LG1	
EE27	Local authority capital	LG1	
EE28	Infrastructure and other public sector capital	GEP1	
EE29	Debt interest and other national accounts adjustments	PSF	GEP3

A1 STRATEGY

Factual

- (i) Objectives of Government's economic policy unchanged:
- to defeat inflation;
 - to encourage enterprise and initiative, which will continue to generate sustained economic growth and increased employment;
- (ii) No change in conduct of policy. Fiscal stance set once a year in the Budget - within year interest rate changed to keep monetary conditions on track.
- (iii) Prospects for growth:
- 4½ per cent growth in 1988 (5 per cent non-oil), but more sustainable growth of 3 per cent in 1989;
 - continuing boom in business investment, growing at 13 per cent in 1988 and 7 per cent in 1989 - still very respectable by historical standards;
 - consumers' expenditure expected to slow down from 5½ per cent in 1988 to 3½ per cent in 1989;
 - good prospects for further fall in unemployment over next year, though more slowly than ½ million fall in last 12 months.
- (iv) Policy already tightened to ensure inflation resumes downward trend and current account deficit declines. Interest rates raised by 4½ points since June:
- inflation forecast at 6½ per cent in 1988Q4, and to be on firm downward trend in second half of 1989, to reach 5 per cent by 1989Q4;
 - current account deficit likely to be slowest indicator to respond to tightening. Deficit forecast at £13 billion in 1988 (3 per cent of GDP), and £12 billion in 1989, though declining through the year.
- (v) Revised assessment of fiscal position in 1988-89:
- PSDR of £10 billion (2½ per cent of GDP), £7 billion higher than forecast at Budget time. Even excluding privatisation proceeds, a PSDR of £4 billion.
 - General government receipts likely to exceed Budget forecast by £4 billion, primarily result of higher than forecast economic growth.
 - Planning total in 1988-89 about £3 billion lower than in 1988 PEWP, reflecting both higher privatisation and right-to-buy receipts and lower spending on programmes because of falling unemployment.

(vi) Planning total unchanged in 1989-90 from 1988 PEWP, £3½ billion higher in 1990-91. Within those totals significant shift. Priority programmes increased:

- health
- law and order
- housing
- transport
- defence
- social security
- basic science

Increases made possible because resources released through success of Government's policies:

- falling unemployment
- greater privatisation and right-to-buy receipts
- greater financial discipline for CAP
- improved nationalised industry performance
- lower debt interest payments

(vii) Real growth of GGE (excluding privatisation proceeds) averaging [1¼] per cent a year in 1988-89 to 1991-92. Compares with nearly 3 per cent in decade before 1978-79, and 1.6 per cent in 1978-79 to 1987-88.

Declining ratio of GGE to GDP: below 40 per cent (excluding privatisation proceeds) in 1989-90; and reaching 39 per cent by 1991-92.

Positive

(i) Good prospects for sustained growth and falling unemployment reflecting success of Government's policies to encourage supply side:

- well into eighth successive year of growth: seven years to 1988 [];
- public finances sound and strong;
- unemployment fallen in last 12 months by ½ million.

(ii) Defeating inflation remains prime Government objective:

- policies tightened at first sign of upturn in inflation;
- inflation expected to resume downward trend [in mid-1989];

(iii) Success of Government's policies directly responsible for:

- higher Government receipts despite Budget cuts in tax rates;
- increased public spending in priority areas;
- and
- higher public sector debt repayment.

- (iv) PSDR of £10 billion (2½ per cent of GDP) in 1988-89. A surplus even excluding privatisation proceeds, for only the second time since the beginning of the 1950s.
- (v) Firm control of public spending in past has produced current successful economy. Now allowing higher public spending in priority areas, within overall constraint that public spending grows more slowly than whole economy. Continuing firm control essential to maintain progress.
- (vi) Declining ratio of GGE to GDP (excluding privatisation proceeds):
- now on lower path than implied in 1988 PEWP; growth in expenditure well within prospective growth of economy as a whole;
 - 39 per cent ratio in 1991-92 will be lowest since [1966-67].
- (vii) Capital spending planned to increase by [£3 billion] (gross) in both 1989-90 and 1990-91: hospitals, housing, prisons, roads, safety measures for London Transport, anti-pollution measures by Water Authorities.

Defensive

- (i) Inflation accelerating? RPI inflation (whether including or excluding mortgage interest payments) forecast to peak in [mid-1989] before turning down again. Expected to be around 5 per cent by end-1989. Firm action already taken to keep inflation under control.
- (ii) Balance of payments crisis now upon us?
- No hint of balance of payments crisis. Current account deficit forecast at 3 per cent in 1988 and 2½ per cent in 1989. Slowest indicator to respond to recent tightening;
 - Deficit entirely private sector phenomenon. Reflects rapid rise in investment and increased individual wealth combined with confidence to spend it.
 - Present deficit financing high investment spending by private sector, contrary to period of 1960s and 1970s when current account deficit financed public sector deficit. Private investment adding to productive capacity which will boost exports and displace imports in future.
 - Government has taken appropriate action and deficit will correct itself in time. No cause for concern provided firm financial framework in place, as it is. Meanwhile, general strength of economy and high level of overseas assets mean no problems in financing temporary deficit.
- (iii) Growth based on consumer boom? No. Temporary period of excessive growth in consumer demand, but fixed investment this year growing twice as fast. Reflecting improved profitability and confidence of British industry. In 1988 investment forecast to grow by 12 per cent as against consumption growth of 5½ per cent. Consumption forecast to slow down to 3½ per cent in 1989.

- (iv) Growth forecast to slow sharply in 1989?
- Growth in 1988 well above trend, so want to see return to more sustainable rate. Policy already tightened in order to achieve that.
 - Forecast shows growth decelerating from $5\frac{1}{2}$ per cent in 1988 to 3 per cent in 1989 - still perfectly respectable growth rate and same as average for last eight years.
- (v) Interest rate rises too little, too late? Government acted promptly to tighten policy. Full effects will take some time to come through. Lower mortgage commitments figures in August and September now feeding through into lower mortgage lending. No one claims similar policy tightening in US or Germany ineffective.
- (vi) Interest rate rises crippling industry, home buyers?
- Need to control inflation paramount.
 - Industry performing very well and will continue to do so. Investment intentions remain strong. Far more to fear from resurgence of inflation. 1 per cent increase in interest rates, even if sustained for whole year, increases costs by far less than 1 per cent increase in wage settlements.
 - Aware mortgage increases cause problems for number of people and regret that. But in long term, keeping inflation under control far more important to public than fluctuations in mortgage rate.
- (vii) 1988-89 fiscal stance too tight? No
- Higher PSDR forecast (in cash terms and as percentage of GDP) than at Budget time largely result of higher growth, producing higher revenue.
 - Money GDP growth up over 3 percentage points on FSBR forecast, just under half the result of higher real GDP growth, and the rest higher inflation.
- (viii) No longer aiming at either PSDR/GDP ratio of 1 per cent or balanced budget? Balanced budget shown for future years in 1988 MTFS but acknowledged may be fluctuations in short term. MTFS not reviewed in autumn but PSDR path for medium term will be published in 1989 MTFS as usual and PSDR for 1989-90 will be set out in 1989 Budget in light of prevailing circumstances then.
- (ix) Buoyant revenue indicates more tax cuts on the way? Much too early to say. Wait for Budget. Government committed to reducing tax, but only when prudent to do so. Chancellor already said intends substantial surplus in 1989-90.
- (x) Fiscal stance too loose/Budget tax cuts irresponsible? No.
- Budget boosted supply, not demand - supply-side benefits will improve output and trade performance in long term.

- Fiscal policy still tight; PSDR of £10 billion forecast - £7 billion higher than in Budget.
 - And Government has kept public spending under control. GGE fallen as percentage of GDP from peak in 1982-83 and set to continue falling through survey period. Hardly an irresponsible stimulus to demand.
- (xi) Why increase planning total in 1990-91? Strength of economy and public finances have made possible some additions to expenditure, especially for priority programmes. But increase in planning total still gives lower GGE/GDP ratio than implied by 1988 PEWP plans, and real growth rate over survey period unchanged.
- (xii) Underspend in 1988-89/higher tax revenues/falling ratio of GGE to GDP should mean more money available for programmes?
- Higher real growth in 1988-89 has permitted higher spending on priority areas, while ratio of public spending to GDP has fallen.
 - No intention of letting up ^{on} prudent fiscal policy and firm control of expenditure which have brought about current strength of economy.
 - No question of spending up to level implied by any particular ratio, or using up all available revenues.
- (xiii) Expenditure falling in real terms in 1988-89?
- Underspend on planning total result of success of Government's policies: lower growth in social security payments because unemployment falling; lower IBAP payments because CAP finances under better control; higher privatisation and right-to-buy receipts.
 - Nevertheless been able to increase spending on priority programmes: health (for nurses' pay), education.
- (xiv) Real cuts in benefits to finance tax cuts for rich? Nonsense.
- Spending on social security up 40 per cent in real terms since Government took office and planned to increase further [] per cent in real terms by 1991-92.
 - Lower tax rates improve incentives and so boost wealth and job creation to benefit of all. Consistent theme of policy since 1979. Has contributed to far higher increase in real take-home pay at all earnings levels than under last labour government.

Contact point: S J Pickford (270 4549)

B1 **INDUSTRY ACT FORECAST OF UK ECONOMY**

Other relevant briefs: BB1 UK economy: recent developments
 BB2 World economy and international comparisons
 BB3 Balance of payments, oil and competitiveness
 BB4 Manufacturing and Industry
 C1 Fiscal policy: 1988-89 to 1991-92
 C2 Revenue Prospects
 C3 Monetary Policy
 CC3 Interest and exchange rates

Factual

(i) Short term forecast to end 1989 in Chapter 2 of Autumn Statement (AS) meets Industry Act 1975 requirement that Government publish two economic forecasts a year.

- (ii) - For main points of AS forecasts, see table 1 at Annex.
 - For comparisons with recent official forecasts, see table 2 at Annex.

(iii) Activity

percentage changes on year earlier

(a) <u>Output:</u>	Outturn 1987	Forecast 1988	Forecast 1989
GDP (average measure)	4	4½	3
GDP (A) excluding oil	4½	5	3½
Manufacturing output	6	7	4½

NB: Rounded to nearest ½ per cent

(b) Expenditure components:

Consumers' expenditure	5	5½	3½
General government consumption	1	½	-½
Total fixed investment	5½	12	5½
Total domestic demand	4½	6	3
Exports of goods and services*	5½ (6½)	1½ (3½)	5½ (7)
Imports of goods and services*	7½ (8)	12 (13)	4½ (4½)

* Figures for non-oil goods and services in brackets

NB: Rounded to nearest ½ per cent.

(iv) Inconsistencies in national accounts: In year to first half of 1988 expenditure measure of GDP rose 2½ per cent, compared with 4½ per cent for income measure and 6 per cent for output measure. Output measure most reliable for periods up to a year. Expenditure and, consequently, average measure probably understating growth. Forecast makes allowance for further rise in average relative to expenditure measure in 1989, though much less than in 1988.

(v) Forecast implies following percentage increases in real GDP
 (average annual increases in brackets)

	1988	1989
From 1979H1 peak	[20 (2)]	[23 (2)]
From 1981H1 trough	[24 (3)]	[27 (3)]
From 1983H1	[18 (3½)]	[21½ (3½)]

(vi) RPI inflation

percentage changes on year earlier

	Weight in 1988	Outturn 1987Q4	Forecast 1988Q4	Forecast 1989Q4
Food	16½	3½	3½	4
Nationalised industries	5½	2½	7½	6½
Housing	15½	7	16	8
Other	63	3½	5½	4½
Total	100	4	6½	5

NB: Rounded to nearest ¼ per cent.

(vii) Earnings: Underlying increase up from 8½ percent at start of year to 9½ per cent in August.

(viii) Unit labour costs growth kept down by rapid growth of productivity. But forecast to rise in 1988, by a little more than average in other major industrialised countries.

(ix) Unemployment should continue to fall over next year, though probably at slower rate than recently.

(x) Balance of payments: Current account deficit of £13 billion forecast in 1988 (3 per cent of GDP), falling to £11 billion in 1989, following deficit of £2½ billion in 1987. Deficit greater than expected at Budget time mainly due to stronger than expected growth in domestic demand.

(xi) North Sea oil prices and exchange rate assumed to remain close to recent levels.

(xii) World economy: GNP growth in major industrialised economies likely to ease slightly to 3 per cent in 1989, after 4 per cent growth in 1988. World trade in manufactures likely to grow by about 8½ per cent in 1988 and by 7½ per cent in 1989. (See also BB2.)

(xiii) PSBR: See C1.

(xiv) Comparison with independent forecasts:

percentage increase on year earlier	Autumn Statement		Average of independent forecasts	
	1988	1989	1988	1989
GDP	4½	3	3.7	2.4
Consumers' expenditure	5½	3½	5.4	3.0
Fixed investment	12	5½	9.7	4.3
Exports of goods and services	1½	5½	1.7	4.6
Imports of goods and services	12	4½	9.8	5.6
RPI inflation (Q4)	6½	5	5.6	5.1
Current account (£ billion)				
1988	-13	-11	-10.7	-10.6
PSDR (£ billion, financial years)	10	not published	6.7	6.0*

* PSDR figures for 1989-90 published by independent forecasters reflect various assumptions about tax changes in the Budget.

Positive

(i) Average annual growth of 3 per cent in 8 years to 1989 if forecast correct, compared with 2 per cent annual growth in 1970s. Six years to 1987 already longest period of steady growth at satisfactory 3 per cent rate since War.

(ii) GDP growth likely to moderate to around 3 per cent in 1989, close to average between 1981 and 1987.

(iii) Non-oil economy forecast to grow by 5 per cent in 1988 and 3½ per cent in 1989. As in 1987, faster growth in manufacturing output (up 7 per cent in 1988 and 4½ per cent in 1989) than non-oil GDP.

(iv) Growth well balanced: 1989 forecast to be year of balanced growth with consumer spending, exports and fixed investment all expected to increase by 3 per cent or more.

(v) 1988 and 1989 forecast to see substantial increases in fixed investment:

	£ billion at 1985 prices	percentage change on year earlier	
		1988	1989
Business investment ⁽¹⁾	[]	13½	7
of which: (i) non-oil business	[]	13½	6½
(ii) manufacturing	[]	18	10
Private dwellings ⁽²⁾	[]	13	2
General government	[]	-1½	6½
Total fixed investment	64.2	12	5½

(1) Includes investment by public corporations.

(2) Includes net purchase of land and existing buildings by persons, companies and public corporations, other than purchases of council houses.

(vi) Forecast shows contribution to growth from stockbuilding remaining modest. Contribution much less volatile than in 1960s and 1970s.

(vii) Non-oil exports of goods forecast to rise 8 per cent in 1989. UK manufacturers share of growing world export markets expected to remain close to average level since early 1980s.

(viii) Healthy growth of manufacturing productivity is limiting unit labour cost increases in 1988.

(ix) Unemployment should continue to fall over year ahead.

Defensive

(i) Growth in 1988 excessive. Strong productivity and business investment growth giving boost to potential supply. But growth clearly temporarily above trend - forecast to moderate in 1989.

(ii) Sharp slowdown in activity through 1989? Growth during 1988 above trend. Thus not surprising if some moderation in 1989. But despite this non-oil economy forecast to grow 3½ per cent in 1989.

(iii) Deceleration in manufacturing output growth: But manufacturing forecast to see eighth successive year of expansion in 1989; record not seen since before first oil price shock. Manufacturing output expected to rise faster than non-oil GDP in 1988 and 1989, as it did in 1987.

(iv) Projected slowdown in consumption growth unlikely. Already clear signs of housing market cooling down, especially in London and South East. This, and high levels of debt-income ratio, should discourage further rapid accumulation of debt by households. Also, households now net payers of interest, so rise in interest rates should reduce personal disposable income directly.

(v) Economy overheating?

- Supply-side improvements since 1970s allow firms to operate more efficiently at higher levels of capacity utilisation.
- CBI's latest quarterly Survey (October) found little evidence of widespread overheating.
- Foundations for continued supply flexibility reinforced by strong growth in fixed investment. Business investment set to rise by 12 per cent in 1988.

(See also BB1.)

(vi) Growth based on consumer boom financed by tax cuts. No. Forecast shows fixed investment growing twice as fast as consumer spending in 1988. Balanced growth forecast for 1989, with consumer spending, investment and exports all expected to rise by 3 per cent or more. Reflects improved profitability of British industry, together with success of exporters in taking advantage of expanding world markets.

(vii) Current balance deficits in 1988 and 1989: See BB3.

(viii) Unemployment forecast: Not practice of this or previous Governments to give precise forecast for unemployment. Unemployment should continue to fall over next year, though more slowly than over past year. Excessive pay settlements could threaten further progress.

(ix) Forecast shows deteriorating labour cost competitiveness in 1988 and 1989. Only goes to highlight danger of excessive pay settlements. Even so, non-oil exports of goods forecast to rise 8 per cent in 1989, maintaining UK share of expanding world markets at close to level since early 1980s.

(x) Inflation on upward trend. Total RPI inflation and inflation excluding mortgage interest payments likely to peak in early to mid 1989 before falling back to around 5 per cent by end 1989. Reflects firm action already taken to ensure inflationary pressures remain under control.

(xi) Oil price assumption: Considerable uncertainty about oil prices. But assumption that price remains close to recent levels realistic and prudent. (See also (BB3)).

(xii) FSBR forecast seriously wrong - demand, current account deficit, inflation, PSDR all higher than expected. Treasury, like all forecasters, did not anticipate exceptional strength of economy this year. As Chancellor has said, can have too much of a good thing. By raising interest rates, has already taken necessary action to damp down demand growth and contain inflationary pressures.

(xiii) Forecast error led to Budget misjudgement - tax cuts were a mistake. No. Purpose of tax reforming Budget was to achieve further lasting improvement in supply side performance. Fiscal policy is unequivocally tight, with PSDR likely to be £10 billion in 1988-89.

B1

(xiv) Forecast errors the result of disarray in statistics. Inconsistencies in statistics clearly make forecasting difficult. But no reason to suppose this explains failure of all forecasters to anticipate strength of economy this year. Government has set up review of economic statistics. CSO Blue Book press notice (9 September) announced exercise to produce balanced set of accounts, to be completed within six months. Hoped that these would inform debate but no intention that they replace existing accounts.

Contact point: D Owen (EA1) 270 5388

TABLE 1

ECONOMIC PROSPECTS: SUMMARY

Per cent changes on a year earlier unless otherwise stated

	1987	Forecast 1988	1989	Average errors from past forecasts ¹
GDP and domestic demand at constant prices				
Domestic demand				
of which:	4½	6	3	1
Consumers' expenditure	5	5½	3½	1½
General government consumption	1	½	-½	¾
Fixed investment	5½	12	5½	2½
Change in stockbuilding (as a percentage of GDP)	0	0	0	¾
Exports of goods and services	5½	1½	5½	2½
Imports of goods and services	7½	12	4½	2½
Gross domestic product	4	4½	3	¾
Manufacturing output	6	7	4½	2
Balance of payments current account (£ billion)	-2½	-13	-11	4½
Inflation				
Retail price index (Q4 on Q4)	4	6½	5	1½
GDP deflator at market prices (financial year)	5½	6½	5	1½
Money GDP at market prices (financial year)	10	11	8	1½
£ billion	424	471	510	
PSDR (financial year)				
£ billion	3½	10		3
as a per cent of GDP	¾	2½		½

1 The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the last ten years and apply to the forecasts for 1989, except for the PSDR where they apply to the forecasts for 1988-89.

Source: Autumn Statement, table 2.12.

TABLE 2

Comparisons of official forecasts

(a) Output (Non-oil in brackets)

		per cent change on year earlier		
		1987	1988	1989
GDP				
-	1987 Autumn Statement	4 (4½)	2½ (3)	not app
-	1988 FSBR	4½ (5)	3 (3½)	2½ (3) *
-	1988 Autumn Statement	4 ()	4½ (5)	3 (3½)
Manufacturing output				
		1987	1988	1989
-	1987 Autumn Statement	5	3½	not app
-	1988 FSBR	5½	5	3½*
-	1988 Autumn Statement	6	7	4½

* 1989H1 only

(b) Inflation per cent change on year earlier

RPI	1987Q4	1988Q4	1989Q2	1989Q4	
-	1987 Autumn Statement	4	4½	not app	
-	1988 FSBR	4	4	not app	
-	1988 Autumn Statement	4	6½	not app	
GDP deflator					
		1987-88	1988-89	1989-90	1990-91
-	1987 Autumn Statement	4½	4½	3½*	3*
-	1988 FSBR	5	4½	4*	3½*
-	1988 Autumn Statement	5½	6½	5	3½*

* assumption

~~[1988 AS figures to be added]~~

C1 FISCAL POLICY 1988-89 TO 1991-92

Other relevant briefs: C2 Revenue Prospects
C3 Monetary Policy
CC1 Public sector borrowing:
→ historical statistics and international comparisons

Factual

(i) PSDR for 1988-89 forecast around £10 billion, 2½ per cent of GDP, compared with of £3.2 billion in FSBR. No other revision of PSDR/PSBR forecast on this scale between FSBR and Autumn Statement during 1980s.

(ii) PSDR excluding privatisation proceeds for 1988-89 forecast at around £4½ billion, 1 per cent of GDP.

(iii) Margin of error: Average absolute error on current year PSDR forecast made in autumn over last 12 years around 0.6 per cent of GDP, equivalent to about £3 billion at current level of GDP.

(iv) General government receipts in 1988-89: Almost £4 billion higher than FSBR forecast. (See C2.)

(v) General government expenditure (GGE) in 1988-89: Over £2 billion lower than FSBR forecast; £1 billion of this reduction due to higher privatisation proceeds. (See E1.)

(vi) Public corporations' market and overseas debt repayment (PCMOD) in 1988-89: £0.8 billion higher than FSBR forecast.

(vii) Comparison of forecasts

	1987-88	£ billion	
		1988-89	
	Outturn	FSBR forecast	AS forecast
General government expenditure	171.6	182.9	180.6
General government receipts	173.6	184.9	188.7
of which:			
North Sea revenues	4.7	3.3	3.4
General government debt repayment	2.1	2.0	8.1
PCMOD**	1.6	1.2	2.0
PSDR	3.7(¾)*	3.2(¾)*	10.2(2¼)*
PSDR excluding privatisation proceeds	-1.3(-¼)*	-1.8(-½)*	4.2(1)*

Figures do not necessarily sum to totals because of rounding.

* Figures in brackets are as percentage of GDP.

** Public corporations' market and overseas debt repayment.

(viii) Changes to estimates of public sector expenditure, receipts and borrowing since Budget

	1987-88	£ billion 1988-89
<u>Expenditure</u>		
General government	-0.2	-2.3
PCMOD	+0.4	+0.8
<hr/>		
Total Expenditure	-0.6	-3.1
<hr/>		
<u>Receipts</u>		
Taxes and NICs	+0.7	+3.6
Other	-0.9	+0.2
<hr/>		
Total Receipts	-0.2	+3.8
<hr/>		
PSDR	+0.6	+7.0

Figures do not necessarily sum to totals because of rounding.

For details, see Annex.

(ix) PSDR outturn in first 6 months of financial year

	1987-88	£ billion 1988-89
PSDR	-1.9	3.7
PSDR excluding privatisation proceeds	-5.8	-1.2

(x) No PSDR forecast for 1989-90: Forecast of economic prospects for 1989 in Chapter 1 of Autumn Statement constructed on assumption that PSDR in 1989-90 will be same as forecast outturn for 1988-89.

(xi) MTFS path for PSDR published at Budget time: MTFS path for PSDR will be reviewed at time of 1989 Budget in normal way.

(xii) 1988 MTFS justification of balanced budget rule: "a prudent and cautious level.... it also provides a clear and simple rule, with a good historical pedigree."

(xiii) Chancellor indicated in Mansion House speech (20 October) that he intended to see a "substantial surplus" in 1989-90.

NOT
BOLD
PLS
CLOSE
UP
GAPS
BETWEEN
ROWS

(xiv) Fiscal projections: Full fiscal projections only published at Budget time. Autumn Statement contains public expenditure plans to 1991-92, but no revenue or PSDR projections beyond 1988-89, and hence no projections for fiscal adjustment.

(xv) GGE projections to 1991-92

		1987-88	1988-89	1989-90	1990-91	1991-92
GGE excluding privatisation proceeds	£ billion	171.5	180.9	193.3	205.0	216.1
	per cent of GDP	40½	38½	38	38	38
GGE	£ billion	176.7	186.9	198.3	210.0	221.1
	per cent of GDP	41¾	39¾	39	39	38¾

(See also [E2])

(xvi) Path for money GDP growth, real GDP growth and inflation

percentage growth over previous financial year
1987-88 1988-89 1989-90 1990-91 1991-92

BOLD PLS → Money GDP	FSBR	9¾	7½	6½	6	5½
	Autumn Statement	10	10¾	8	6*	5½*
BOLD PLS → Real GDP	FSBR	4½	3	2½	2½	2½
	Autumn Statement	4½ 1/2	4**	2½**	2½*	2½*
BOLD PLS → GDP Deflator	FSBR	5	4½	4	3½	3
	Autumn Statement	5½	6½	5	3½*	3*

* Money GDP growth path (and real GDP growth and GDP deflator components) for 1990-91 and 1991-92 remain as set out in MTFs at Budget time.

** Financial year real GDP figures not published but can be inferred approximately from money GDP and GDP deflator figures.

(xvii) Key PSDR components: See Annex.

Positive

(i) 1988-89 PSDR forecast to be about £10 billion (2½ per cent of GDP), almost £7½ billion higher than forecast at Budget time. Never repaid debt on this scale in any year since beginning of 1950s. ~~(Existing data on PSDR goes back to 1952).~~

(ii) 1988-89 only third year with net debt repayment since early 1950s: (other years were 1987-88 and 1969-70). (See also CC1.)

(iii) 1988-89 PSDR excluding privatisation proceeds forecast to be 1 per cent of GDP. Only other year since beginning of 1950s with net debt

repayment after excluding privatisation proceeds was 1969-70 (PSDR of 1½ per cent of GDP).

(iv) For first 6 months of 1988-89, PSDR excluding privatisation proceeds £4½ billion higher than for corresponding period in 1987-88.

(v) GGE as proportion of GDP in 1988-89 lower than forecast at Budget time both including and excluding privatisation proceeds. Continues downward trend begun in 1982-83. Ratio excluding privatisation proceeds will be below 40 per cent for first time in over two decades, having fallen nearly 7 percentage points since 1982-83 - largest and longest sustained fall since war time economy ^{unwound} ~~onward~~. (See also [E1].)

(vi) GGE projections to 1991-92 (including or excluding privatisation proceeds) show further reduction as proportion of GDP. (See also [E2].)

(vii) General government receipts for 1988-89 now forecast nearly £4 billion higher than 1988 FSBR, with non-oil receipts also up by nearly £4 billion. (See also C2, B1.)

(viii) International comparisons: Treasury forecast suggests UK general government financial surplus in 1988. All other major industrial countries still running fiscal deficits, with possible exception of Japan which is close to balance. (See also CC1).

Defensive [NOTE TO WPU: PLEASE REORDER IN NUMERICAL ORDER]

(ix) Why such big increase in 1988-89 PSDR forecast? To large extent, PSDR forecast higher because economy growing faster, and inflation higher than expected at Budget time, so tax revenues higher and expenditure lower. Also privatisation proceeds higher.

(x) PSDR forecast for 1988-89 still too low: Substantial upward revision (over £7 billion) to 1988 FSBR forecast. Of course, outturn could be higher - or lower. Average error estimated on past experience at ±£3 billion for current forecast.

(xi) Government deliberately published pessimistic forecast for 1988-89 PSDR at Budget time. No. Budget forecast was best estimate at time. In event, economy been growing faster than expected and inflation higher, leading to higher tax revenues and lower expenditure.

(xii) (iv) Current account deficit requires tighter fiscal policy?

- Fiscal policy already tight: budget in surplus.
- Current account deficit entirely private sector phenomenon.
- Slowing of domestic demand growth and increase in capacity implied by this year's investment boom will help to bring the current account back towards balance over the medium term.
- Experience of 1960s and 1970s illustrates futility and dangers in attempting fiscal fine-tuning to offset short term swings in private sector spending.

X (i) Budget tax cuts adding to domestic demand and irresponsible? Budget boosted supply, not demand. Despite longer term commitment, Government did not plan in Budget for reduced tax burden (ratio of tax receipts to GDP) for 1988-89. Nonsense to argue fiscal policy too loose/: debt repayment as percentage of GDP now forecast to be even higher than expected at Budget time.

(ii) Tax burden now shown as falling, so Budget did after all contribute to stimulating domestic demand? Latest revenue and GDP forecasts imply small fall ($\frac{1}{4}$ percentage point) in non oil tax burden in 1988-89; but an even bigger downward revision to the GGE/GDP ratio forecast. So argument that Budget not stimulative holds even more strongly.

X (iii) Excessive reliance on monetary policy - need for fiscal tightening now? Task of fiscal policy is to buttress monetary policy, with expenditure and tax decisions taken in medium term context. Fiscal policy already tight by any standards. Notion that fiscal policy could or should be used to fine-tune demand is to hark back to failures of 1960s and 1970s. Chancellor reiterated (interview, Radio 4, "World at One", 25 August) intention to stick to rule of having one budget a year in Spring. ~~Between Budgets~~ Job of ensuring monetary conditions remain on track must fall to short term interest rates. (See also [C3].)

X (iv) Inflation forecast for 1989-90 indicates overall stance of policy too loose? With hindsight, clear that monetary conditions not tight enough earlier this year, but required tightening has already taken place. Inevitably, takes time for this to be reflected in inflation outturn.

X (v)(xiv) Higher revenues would permit higher expenditure growth.

- Continued restraint in public spending vital element of economic success.

X - Falling ratio of GGE to GDP essential to enable ^{balanced budget} ~~low level of borrowing~~ to be combined with reduction in tax, so improving motivation and efficiency and creating more job opportunities.

X (vi)(xv) Scope for future tax cuts?

- Wait for Budget.

- Autumn Statement not time to provide new projection of fiscal adjustment or indication of scope for action in Budget (see below).

X (xvi)(vii) Why no fiscal adjustment published?

- Publication in Autumn Statement discontinued after 1984.

- Autumn Statement contains outline of future spending plans and conditional forecast of economic prospects. Not intended as restatement of MTFs which is reviewed only at Budget time.

- In these circumstances, calculation of fiscal adjustment would be pure arithmetic and impart no genuine new information. So misleading to publish as if did.

(xvii) ~~(viii)~~ Buoyant revenue indicates massive fiscal adjustments in prospect. Invalid inference. Scope for fiscal adjustment can only be assessed in full context of Budget. Government committed to reducing tax burden, but only when prudent to do so. Government also favours gradualist approach.

(xviii) ~~(ix)~~ Buoyant revenue indicates Chancellor can repeat hat-trick with public finances in 1989 Budget. Much too early to say. Wait for Budget. But Chancellor has indicated that he intends to see a substantial surplus in 1989-90.

(xix) ~~(x)~~ Government favouring public spending over cuts in tax burden? Expenditure plans show further decline in GGE/GDP ratio, including or excluding privatisation proceeds. In context of balanced budget this means tax burden reduction over medium term.

(vi) ~~(xi)~~ Money GDP path higher than in MTFS: FSBR forecast, like other forecasts made at the time, understated buoyancy of demand and consequent inflationary pressures. Hence upward revision to money GDP growth figures for 1988-89 and 1989-90. MTFS path for money GDP growth in later years not reviewed in Autumn.

(xii) ~~(xii)~~ Forecast implies large PSDR for 1989-90 compared with balanced budget in MTFS?

- PSDR for 1989-90 will be set at Budget time in accordance with 1989 MTFS.
- But assumption always required to construct Industry Act forecast for following year.
- Assuming same PSDR in 1989-90 as in 1988-89 is same convention as before.

(vii) ~~(xiii)~~ Money GDP growth and PSDR forecasts imply change to MTFS and fiscal stance?

- MTFS updated at Budget time, not in Autumn Statement.
- MTFS designed to bring inflation down further over period of years. Always allowed for short term fluctuations. No change in primary objective of price stability.
- By raising interest rates Government already taken resolute action to bring monetary conditions back on track. Will take whatever further action proves necessary. Forecast shows inflation coming down in 1989-90.
- Fiscal stance over medium term set in accordance with MTFS and hence reviewed only at Budget time. PSDR path for medium term will be published in 1989 MTFS as usual, and PSDR for 1989-90 will be set in 1989 Budget in light of prevailing circumstances.

(viii) ~~(xiv)~~ Government abandoned commitment to MTFS? Not at all. Medium term reduction in money GDP growth and hence inflation is still prime objective of policy.

(ix) ~~(xv)~~ Government abandoned commitment to eventual price stability? Price stability remains ultimate objective of MTFS.

(x) ~~(xvi)~~ PSFD better measure of fiscal stance than PSDR?

- No single best measure of fiscal stance but PSDR much less prone to error than PSFD and information more timely.
- Changes in composition of PSDR (eg privatisation proceeds) and state of economy taken into account in setting PSDR at Budget time.
- PSFD also expected to show surplus in 1988-89.

(xi) ~~(xvii)~~ Why is tax burden forecast for 1988-89 lower than at Budget time? Not surprising. Some of extra tax revenue generated by higher money GDP growth will not be paid until later financial years (eg corporation tax).

Contact point: C M Kelly (MP1) 270 5508

() Fiscal stance too tight in 1988-89? No. Higher PSDR forecast than at Budget time largely result of higher money GDP growth (up over 3 ~~percentage~~ percentage points on FSBR forecast).

KEY PSDR COMPONENTS*

ANNEX

	FSBR	1987-88 outturn	change	FSBR	£ billion 1988-89 AS	change
Planning total (o/w: privatisation proceeds)	146.0	145.7	-0.3	156.8	153½	-3
Interest payments	16.3	16.0	-0.4	16.3	15½	-½
Plus PCMOD**	1.2	1.6	+0.4	1.2	2	+1
Other adjustments	8.3	8.3	0	8.6	9½	+½
<hr/>						
General govt. exp	171.8	171.6	-0.2	182.9	180½	-2½
<hr/>						
North Sea revenues	4.7	4.7	0	3.3	3½	0
Non-NS taxes	127.6	128.0	+0.4	138.5	141½	+2½
Nat. Ins. Contributions	28.7	28.9	+0.2	31.6	32½	+1
Interest and other receipts	12.7	12.0	-0.7	12.0	12½	+½
<hr/>						
General govt. receipts	173.7	173.6	-0.1	184.9	188½	+4
<hr/>						
GGDR	1.9	2.0	+0.1	2.0	8	+6
Plus PCMOD**	1.2	1.6	+0.4	1.2	2	+1
<hr/>						
PSDR	3.1	3.7	+0.6	3.2	10	+7
<hr/>						
PSDR as per cent of GDP	¾	1	1¼ +¼	¾	2¼	+1½

* All £ figures rounded to nearest £100 million for 1987-88 outturn and FSBR and to nearest £½ billion for Autumn Statement forecast. PSDR as percentage of GDP rounded to nearest ¼ per cent. Figures do not necessarily sum to totals, either down or across, because of rounding.

**Public corporations' market and overseas debt repayment.

E1

E1 PUBLIC EXPENDITURE 1988-89

Detailed questions on programmes to individual Departments

Other relevant briefs: C1 Fiscal policy 1988-89 to 1991-92
E2 Public expenditure 1989-90 to 1991-92
E3 Public expenditure: historical statistics,
plans and international comparisons
EE29 Debt interest and other national accounts
adjustments

Factual

(i) Prospective outturn for 1988-89 planning total

- [£153.6] billion (although estimate still uncertain). Includes implications of winter Supplementaries and claims expected later.
- Represents underspend of [£3.3] billion on 1988 PEWP and FSBR plans of [£156.9] billion (adjusted for classification changes).

(ii) Main reasons for underspend

- increased privatisation proceeds £1.0 billion
- lower Social Security payments due to fall in unemployment £0.9 billion
- higher net receipts from local authorities and New Towns £0.7 billion
- revised expenditure forecast for Intervention Board for Agricultural Produce £0.3 billion
- improved nationalised industry performance £0.3 billion.

(iii) Comparison of 1988-89 planning total outturn with 1988 PEWP plans

[see table 1.3 of Autumn Statement]

Main increases

- DH Health and Personal Social Services (mainly reflecting NHS pay settlement); (£1.1 billion)
- DES (£0.5 billion) and DOE Other Environmental Services (£0.5 billion) reflecting LA overspending;
- DTI (largely payment to Rover); (£0.5 billion)

E1

Main decreases

- Intervention Board for Agricultural Produce (reflecting effects of US drought and UK harvest) (£0.3 billion);
- LA capital (net) (reflecting higher gross spending offset by even higher receipts) (£0.6 billion);
- Privatisation proceeds (£1.0 billion);
- DSS Social Security (reflecting lower unemployment); (£0.9 billion)

(iv) Reserve

- Reserve in 1988 PEWP plans £3.5 billion
- Agreed claims amount to over £2.0 billion. Offset by higher receipts than forecast and underspending elsewhere

(v) Main claims on Reserve

	£ million
End-year flexibility	770
Local authority relevant	1200
Local authority capital (gross)	1140
NHS and FPS pay review	890
Assistance to Rover Group	550

(vi) Main benefits to the Reserve

	£ million
Privatisation proceeds	1,000
Extra capital receipts:	
LA capital receipts	1720
New Towns capital receipts	120
Net improvement in nationalised industries (mainly Steel and Rail)	290

Reserve will also benefit from forecast underspending (eg on social security £900 million and IBAP £300 million.)

E1

(vii) General government expenditure (GGE) excluding privatisation proceeds.

1988-89

(£ billion)

	1987-88	PEWP (as published)	AS
Planning total (excl pp)	150.9	161.8	[159.6]
Debt interest	17.5	18.0	[17.7]
Other adjustments	<u>8.2</u>	<u>8.0</u>	<u>[9.6]</u>
Total GGE	<u>176.7</u>	<u>189.0</u>	<u>[186.9]</u>

(viii) GGE (excluding privatisation proceeds) as percentage of GDP estimated [39½] per cent in 1988-89. Compares 42 per cent forecast in PEWP; [41½] per cent in 1987-88.

Positive

(i) Prospective outturn for planning total is [£153.6] billion, [£3.3] billion less than plans (adjusted for classification changes).

(ii) GGE (excluding privatisation proceeds) as percentage of GDP at lowest level since [mid 1960s]. Estimated [39½] per cent in 1988-89. Fallen from 45½ per cent in 1983-84 and [41½] per cent in 1987-88.

(iii) Real terms decrease in planning total and GGE (1988-89 over 1987-88): GGE (excluding privatisation proceeds) [0.6] per cent lower than 1987-88; planning total [0.5] per cent lower.

(iv) Underspend helped by continued strength of the economy. Lower unemployment £1.1 billion; £0.7 billion from higher net capital receipts of local authorities and New Towns; £0.3 billion from better results of nationalised industries. (Also £1 billion from more successful privatisation proceeds).

Defensive

(i) Details of Departmental spending (estimated outturn and Reserve claims): Refer to Departments.

(ii) If underspending, why, not spend more elsewhere? Tight control of expenditure cornerstone of economic policy. No relaxation now. Outturn still uncertain. Undershoot on planning total substantially result of increased receipts.

(iii) What is "Adjustment" in Autumn Statement Table 1.3? "Adjustment" £[300] million shows difference between assessment of likely outturn for 1988-89 and sum of other items shown. Sum of differences of judgement. Adjustment regularly included in AS and PEWP tables.

E1

(iv) Implications for PSBR/PSDR? See [C1]

(v) Winter Supplementaries: To be presented to Parliament this month, as usual. Planning total outturn allows for expected claims on Reserve.

(vi) Government unnecessarily miserly with expenditure this year? Over £2 billion of Reserve claims agreed, including extra £0.9 billion for NHS and FPS pay. Offset by higher receipts (privatisation proceeds, LA capital, New Towns) and effects of economic success (lower unemployment, better performance of nationalised industries).

(vii) Underspend looks implausible?

Best estimate at present. Naturally still uncertain.

(viii) Why not allocate more to programmes instead of Reserve?

Reserve needed for unforeseen contingencies. Essential part of prudent expenditure control. Agreed claims on Reserve in 1988-89 already exceed £2 billion.

(ix) Always overspend on same programmes?

Not true. Underspending this year on social security and NI EFLs. NHS addition reflects continuing priority for health. Problem with local authorities addressed in Government's plans for local authority finance.

(x) Government covertly planning for real falls in GGE?

No. Over £2 billion added to programmes in both 1987-88 and 1988-89. Offset by higher than anticipated receipts, underspending, and lower debt interest.

(xi) Why plans (£156.9 billion) different from PEWP (£156.8 billion)?

Standard practice to update plans to reflect minor adjustments of classification and allocation.

Contact point: P Pegler (GEP2) 270 5531

12 PUBLIC EXPENDITURE: 1989-90 TO 1991-92

Detailed questions on programmes to individual Departments.

(A) [See also Fiscal policy: 1988-89 to 1991-92 (Brief C1), Public expenditure: 1988-89 (E1), Public expenditure: historical statistics, plans and international comparisons (E3) and briefs in Section EE]

Factual

(i) Planning totals

	1989-90	1990-91	£ billion 1991-92
1988 PEWP	167.1	176.1	not app
Survey changes	Nil	+3.4	not app
Revised planning total	167.1	179.5	191.7

- Notes: (1) Government sets planning totals for purpose of planning and controlling public expenditure; by holding to planning totals Government seeks to achieve wider objective of reducing general government expenditure (GGE) as a proportion of GDP.
- (2) New plans, especially for 1991-92, reflect loss of negative EFLs of industries being privatised (see EE24), notably electricity and water.

(ii) Growth in public spending: longer term trends

	Average annual percentage change in real terms		
	1968-69 to 1978-79	1978-79 to 1987-88	1987-88 to 1991-92
GGE (excluding privatisation proceeds)	+2.9	+1.6	+1.3
GGE (including privatisation proceeds)	+2.9	+1.2	+1.5
Planning total (including privatisation proceeds)	+2.9	+0.9	+2.6

Note: GGE (excluding privatisation proceeds) provides best measure of underlying trend of public spending and is measure to use when quoting real terms growth rate and ratios to GDP (because includes debt interest which is also financed from taxation but excludes privatisation proceeds).

(. .) Growth in public spending: 1987-88 to 1991-92

	Per cent change in real terms on year earlier				Average 1987-88 to 1991-92
	1988-89	1989-90	1990-91	1991-92	
GGE (excluding privatisation proceeds)	-0.6	+1.3	+2.1	+2.4	+1.3
GGE (including privatisation proceeds)	-0.9	+2.0	+2.2	+2.5	+1.5
Planning total (including privatisation proceeds)	-0.8	+3.6	+3.8	+3.7	+2.6

(iv) GGE (excluding privatisation proceeds) as percentage of GDP

1966-67	38½		
1969-70	40		
1975-76	48½	(post-war peak)	
1978-79	43½		
1982-83	46¾	(peak under this Government)	
1986-87	44		
1987-88	41½		
	<u>PEWP 1988</u>	<u>FSBR 1988</u>	<u>AS 1988</u>
1988-89	42	41¼	[40]
1989-90	41¾	40¾	[39½]
1990-91	41¼	40	[39¼]
1991-92	not app	not app	[39]

(See also E3.)

(v) Reserves

£ billion

1989-90	3.5
1990-91	7.0
1991-92	10.5

(For details of Reserves in previous plans, see Annex 2.)

() Main changes to Departments' cash plans since 1988 PEWP

£ million, cash terms

1989-90 1990-91

Increases

Central government:

Health*	+1,170	+1,390	Service improvement, pay and capital spending
Defence	+100	+500	
Transport*	+250	+290	Road building programme
Home Office*	+260	+370	Increased prison building
Education*	+260	+280	Polytechnics, universities and basic science

Local authorities:

Relevant

~~+x~~ +2,000
~~+x~~
+1,700

Decreases

IBAP	-420	-400	Lower cost of CAP market support
Employment	-200	-300	Lower unemployment
DOE Housing*	-1,285	-990	Higher capital receipts

Note: Additions to programmes marked with an asterisk in general relate to England only. A breakdown of the additions to the territorial programmes will be given in the 1989 PEWP.

(See Annex 1 and individual briefs in section EE for further details.)

(vii) Economic assumptions: Inflation assumptions higher, unemployment assumptions lower. See Annex 3.

(viii) Debt interest: See EE29.

Positive

(i) Firm control of public expenditure in past has helped produce present successful economy. Autumn Statement shows Government will maintain that control in future; plans allow real growth of about 1¼ per cent a year.

(ii) Planning total for 1989-90 unchanged First time for four years that planning total for year ahead has been held at level published in previous PEWP. Demonstrates Government's firm control of expenditure.

(iii) Ratio of public spending to GDP reduced

- Ratio has fallen by about 7 percentage points since 1982-83.

- Now planned to follow lower path than in 1988 PEWP or FSBR. Ratios for all three years lower.
- 40 per cent ratio in 1988-89 will be lowest since 1969-70.
- 39 per cent ratio in 1991-92 will be lowest since 1966-67.
- Continuing decline reduces burden of public sector on taxpayer.

(iv) Real growth in GGE (excluding privatisation proceeds) decelerating - to average 1½ per cent a year in four years 1987-88 to 1991-92, compared with 1.6 per cent from 1978-79 to 1987-88 and almost 3 per cent a year over decade to 1978-79.

(v) Have increased spending on priority programmes. Compared with plans in last PEWP, extra resources allocated to health, education, basic science, law and order, defence and roads.

(vi) Have increased provision for public sector capital spending by over £3 billion a year in 1989-90 and 1990-91 including large increases for nationalised industries, housing, education, health capital, roads and prisons (see EE28).

(vii) Offsetting reductions in public expenditure plans reflect success of policy in other areas

- Sound financial policy has led to reduced burden of debt interest
- Progress in reforming CAP has contributed to lower agricultural support
- Falling unemployment has meant savings on social security and employment programmes
- Nationalised industries' improved performance has reduced demands on taxpayer
- Value for money improvements produce large savings, eg ~~£500 million a year~~ in NHS (England) cost improvement programmes, *expected to yield £700 million by end of current financial year.*
- Success of council house sales under Government's right-to-buy policy has helped pay for more capital spending on housing by local authorities.

(viii) Labour Party's spending record

- Explosion of public spending in 1974-75 at unsustainable rate led country into arms of IMF and subsequent cuts.
- Between 1973-74 and 1978-79 total capital spending down over 20 per cent in real terms; NHS capital down 30 per cent; motorways and trunk roads capital down 40 per cent.

(ix) This Government's spending record

- Unlike stop-go under Labour, increases in public spending have been brought down to rate economy can afford.
- Result is that increases have been steady and sustained: GGE (excluding privatisation proceeds) in 1991-92 planned to be 20 per cent higher in real terms than in 1978-79.
- Capital spending broadly maintained in real terms (see EE28).

INSERT NEW PARA
Defensive

(i) Why increase in 1990-91 planning total? Strength of economy and public finances have made possible some additions to expenditure, especially for priority programmes. But increase in planning total consistent with lower ratio of public spending to GDP than implied by 1988 PEWP plans. Real growth rate over survey period same as projected at end of last Survey.

(ii) Should spend more on vital public services - room within growing GDP?

- Higher real growth in 1988-89 has permitted higher spending on priority areas, while ratio of public spending to GDP has fallen.
- But prudent fiscal policy and firm control of expenditure have brought about current strength of economy.
- No question of spending up to level implied by any particular ratio.

(iii) Public spending has been cut in real terms compared to levels in 1988 PEWP? Demonstrates Government's grip over public expenditure. Have nevertheless been able to increase spending on priority programmes because success of Government policies has permitted offsetting reductions elsewhere, eg debt interest, unemployment benefit, agricultural support, council house sales.

(iv) Extra spending possible given buoyant tax revenues? Quite wrong to adjust spending to use up whatever revenues happen to arise in any particular year. Would be disruptive to programmes and harmful to economy.

(v) Concentration on GGE/GDP ratio implies accommodating higher inflation or boosting spending when economy buoyant? No.

- Ratio reduced below 1988 PEWP path. Implies spending in real terms adjusted by less than real terms GDP.
- No automatic adjustment for inflation.

(vi) Government prefers tax cuts to increased spending? No conflict between cutting tax rates and increasing spending, as record shows. Reducing tax rates encourages enterprise and initiative, in turn improving growth and hence resources available for priority services. Over time, lower tax rates mean more revenue, not less.

- E2.5 -

wpu

(x) Changes to Autumn Statement and PEWP As indicated in White Paper "Financial Reporting to Parliament" (Sm 375), section on public spending in Autumn Statement has been expanded to include much general information on public spending previously in Chapter 1 of PEWP. PEWP will be included in separate departmental chapters in New Year and will elaborate on individual

(vii) Rise in money GDP has enabled Government to relax spending control? No.

- Have stuck to 1989-90 planning total.
- Public finances now sufficiently strong to permit some increase in spending where merited. But public spending must still account for declining share of national income.
- Government maintaining firm control over total public spending. Has necessitated difficult decisions.

(viii) Principle of cash planning clearly abandoned? No.

- Public expenditure still planned in cash. Survey conducted in cash terms and cash plans for first year become cash limits. Procedure still strictly enforced.
- No Department entitled to increase in overall provision for its programme because of inflation. All additions must be argued for.

(ix) Emphasis on GGE deliberate attempt to divert attention from faster growing planning total? Emphasis on GGE not new. MTFs focuses on GGE, since includes debt interest which also has to be financed by taxation. Sensible to concentrate on same measure in public expenditure context too.

(x) Why is growth in planning total so much higher than for GGE? Higher figures for later years reflect prudent Reserves in face of uncertainties. But Government will, as usual, review totals in next Survey in light of position then. Debt interest (in GGE but not planning total) falling due to sound financial policies. Loss of negative EFLs of electricity and water increases planning total in last year; if all industries to be privatised are excluded, growth of planning total averages x per cent in real terms between 1987-88 and 1991-92.

(xi) Planning total in 1989-90 only maintained thanks to higher capital receipts? Receipts largely reflect success of Government's right-to-buy policy. Quite proper to score in planning total: counterpart to investment - which also scores - in housing. Benefit simply reflects Government policy bearing fruit. [IF PRESSED: Even if capital receipts excluded, GGE (excluding privatisation proceeds) would show steady downward trend as share of GDP and planned growth 1987-88 to 1991-92 remains about 1½ per cent.]

(xii) Only tiny fall in GGE/GDP ratio after 1989-90? All ratios well below PEWP plans. Ratio in 1991-92 projected to be some 2½ percentage points below that of last outturn year (1987-88).

(xiii) Plans always unrealistic compared to outturn? No. Outturn on planning total below final plan figure in 1979-80, 1981-82, 1982-83 and 1987-88 and forecast to be below in 1988-89 (see E1). So counting this year, 5 undershoots and 5 overshoots in past decade.

(xiv) What happened to revenue determines expenditure? Never meant to mean spending increases to use up whatever revenue available. Revenue determines in sense of constrains.

(xv) Did Star Chamber meet? Was set up as usual and considered report from Chief Secretary on his bilateral discussions. But in event, did not prove necessary to refer any programmes to it.

(xvi) Government cutting benefits to poor and child benefit to pay for tax cuts for rich? Nonsense.

- Spending on social security up 40 per cent in real terms since Government took office and planned to increase further per cent in real terms by 1991-92. (See EE17.)

- INSERT FROM BELOW
Lower tax rates improve incentives and so boost wealth and job creation to benefit of all. Consistent theme of policy since 1979, has contributed to far higher increase in real take-home pay at all earnings levels than under last labour government.

(xvii) Level of Reserves: Set at same level as last year. Experience suggests large Reserves prudent to meet unforeseen requirements. Government criticised in past for setting reserve too low. [IF PRESSED: No implication that Treasury expects Departments to overspend or inflation to exceed assumptions.]

(xviii) Not enough spent on capital and infrastructure? See EE28.

(xix) Why no information on running costs in expanded Autumn Statement?
[TO be completed]

Contact point: Miss S P B Walker (GEP1) 270 5522.

- Families on income-related benefits fully protected from child benefit freeze and get 50p a week more ~~than had~~ per child than had child benefit been uprated: 3 million children benefit.

ANNEX 1

PUBLIC EXPENDITURE PLANS: CHANGES FROM 1988 PEWP AND SINCE 1978-79 ANALYSED BY DEPARTMENT AND BY SPENDING AUTHORITY

Department	1989-90 cash change from 1988 PEWP (£ million)	1990-91 cash change from 1988 PEWP (£ million)	Real terms percentage change 1978-79 to 1987-88	Real terms percentage change 1987-88 to 1991-92 ⁽¹⁾
Defence				
FCO-Diplomatic Wing				
FCO-ODA				
European Communities				
MAFF				(3)
DTI				
ECGD				(3)
Energy				
Employment				
Transport				
DOE-Housing				
DOE-Other				(3)
Home Office				
Legal Departments				
Education and Science				
Arts and Libraries				
Health				
Social Security				
Scotland ⁽²⁾				
Wales ⁽²⁾				
Northern Ireland ⁽²⁾				
Chancellor's Depts				
Other Departments				
<u>Spending authority</u>				
Central government				
LA relevant				
LA total				
Nationalised Industries				(3)

no gap →
 gap →
 no gap →

put on same line if possible

↑ up by 1 line
 (3)

Notes

(1) In final column the 1987-88 figures include allocation to programmes of that year's Reserve, whereas 1991-92 figures are before allocation of Reserve of £10.5 billion.

(2) Changes to territorial programmes mainly reflect changes in comparable programmes in England. A breakdown of territorial programmes by function will be given in the 1989 PEWP.

Can we squeeze that
 footnote into this page?

TRY! I have made
 a bit of room

Figure affected by loss of negative EFLs due to privatisations. Excluding industries to be privatised, real terms percentage change from 1987-88 to 1991-92 would be: DTI x percent, Energy x percent, DOE Other x percent, Nationalised industries x per cent.

ANNEX 1 (cont)

PUBLIC EXPENDITURE PLANS: NEW PLANS ANALYSED BY DEPARTMENT

	Percentage cash change on previous year		
	1989-90 ⁽¹⁾	1990-91	1991-92
Defence			
FCO-Diplomatic Wing			
FCO-ODA			
European Communities			
MAFF			
DTI ⁽²⁾			
ECGD			
Energy ⁽²⁾			
Employment			
Transport			
DOE-Housing			
DOE-Other ⁽²⁾			
Home Office			
Legal Departments			
Education and Science			
Arts and Libraries			
Health			
Social Security			
Scotland			
Wales			
Northern Ireland			
Chancellor's Departments			
Other Departments			

Total Departmental programmes⁽²⁾

(Projected rise in GDP deflator)

Notes

(1) Implied 1988-89 figures are current expected outturn including allocation to programmes of Reserves. 1989-90 and subsequent figures are before allocation of Reserves of £3.5 billion, £7 billion and £10.5 billion respectively.

(2) See note 3 to previous table. Excluding industries to be privatised, percentage cash changes would be:

	1989-90	1990-91	1991-92
DTI			
Energy			
DOE Other			
Total			

ANNEX 2

RESERVES

f billion

	1989-90	1990-91	1991-92
1988 Autumn Statement	3.5	7	10.5

Per cent of planning total

Compares with	Year 1	Year 2	Year 3
1988 PEWP	3.5	7.0	10.5
1987 PEWP	3.5	5.5	7.5
1986 PEWP	4.5	6.25	8.0
1985 PEWP	3.0	4.0	5.0
1984 PEWP	2.75	3.75	4.75

(NB Reserves in 1986 PEWP high to reflect exceptional decision to project LA current spending at constant cash levels.)

ECONOMIC ASSUMPTIONS

	<u>1988-89</u>			<u>1989-90</u>			<u>1990-91</u>			<u>1991-92</u>		
	1988 PEWP	1988 FSBR	1988 AS	1988 PEWP	1988 FSBR	1988 AS	1988 PEWP	1988 FSBR	1988 AS	1988 PEWP	1988 FSBR	1988 AS
Unemployment (GB narrow, millions)	2.6	not app	2.1	2.6	not app	1.9	2.6	not app	1.9	not app	not app	1.9
GDP deflator (per cent)	4½	4½	6¼	3½	4	5	3	3½	3½	not app	3	3

	September 1988 to September 1989		September 1989 to September 1990	
	1988 PEWP	1988 AS	1988 PEWP	1988 AS
RPI (per cent)	3¼	5½	not app	4

(See also D1, EE17.)

SCORECARD

COPY NO: 4 OF: 24

FROM: J MACAUSLAN

DATE: 26 OCTOBER 1988

CHIEF SECRETARY +1

cc: Chancellor +1
Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mr Turnbull
Mrs Butler
Mr Gieve
Mr Mowl
Mr Pickford
Mr Richardson
Miss Simpson
Miss Walker
Mr Call
Mr Tyrie

PUBLIC EXPENDITURE CABINET: 1 NOVEMBER

I attach:

- (a) a draft of your paper for Cabinet, along with an Annex describing the settlements reached.
- (b) a draft speaking note for you to use at Cabinet.
- (c) a draft speaking note for the Chancellor.
- (d) the core of the briefing we expect to offer you.

3. This material is submitted today for:

- (i) comments on the Cabinet paper. I will submit a redraft tomorrow. The redraft will reflect (a) comments from you and the Chancellor, (b) decisions on Mr Turnbull's submission of today on fine-tuning the Survey numbers, and (c) the effect of decisions on community charge compensation. The paper needs to go to No 10 for approval tomorrow (Thursday) and to the Cabinet Office on Friday (or conceivably Monday).

(ii) a decision whether the Cabinet paper should be circulated on Friday or Monday. I recommend the latter, to minimise the risk of leaks; even though the paper does not mention the new planning totals, it gives figures which virtually give the game away.

(iii) any views you want us to take into account in finalising the speaking notes and briefing. We will then resubmit full (and I hope final) versions on Friday.

4. Your paper and the speaking notes are on the basis adopted last year that you report the additions to programmes, leaving the Chancellor to propose numbers for privatisation proceeds, the Reserves, and the new planning totals.

5. The speaking note for the Chancellor will be accompanied by a single sheet summary of the forecast.

6. I have attached to the speaking note a mock-up of a sheet which the Chancellor may want to distribute as he explains the planning total arithmetic. (The figures on this sheet will need revision in the light of decisions you and the Chancellor make tonight on the final Survey numbers). Last year, I gather that the Chancellor decided not to use this sheet. It would, of course, be possible to decide to use one of the Tables on the sheet but not the other.

7. The briefing has (in square brackets) a passage on the deferment of the imposition of VAT on new construction. No decision to defer has yet been taken. The only reason to decide now would be to be able to use the point made in the brief — that the Treasury has stuck to the cash plans, in spite of a windfall for departments; therefore departments should do likewise, and absorb high inflation. I will remove the point if you and the Chancellor are clear that you do not want to play the issue that way.



J MACAULAN

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER MAJESTY'S GOVERNMENT

C(88)

[October] 1988

Copy No

CABINET

1988 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, HM Treasury

At its meeting in July, Cabinet set itself the objective^s of keeping as close as possible to the existing planning totals, and of ensuring that public spending as a proportion of national income continued to fall over the three Survey years from the level already reached.

Report on the Bilaterals

2. I have conducted bilateral discussions with colleagues against that background. The starting point was that Cabinet had agreed in July to add ~~£1.65~~⁷ billion to provision for local authority current expenditure in 1989-90. Subsequently, figures were agreed for the later two years, leading to additions of:

	(£ billion)		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
	1.7	2.0	2.72

In addition, I had to take into account the effects on expenditure in the Survey years of previous decisions on the 1988 health Review Body awards, and on changes to the new social security regime, as well as the effects of new forecasts for our net payments to the EC. I was faced with substantial further additional bids on the remaining programmes, so that the total additions sought amounted to:

8.7	13.2	18.7
-----	------	------

x
In the course of bilateral discussions, additions to programmes have been agreed of about ^{half} these amounts:

3.5 6.8 11.3

3. Details of the settlements are at Annex A. These included some large increases that were unavoidable (eg estimating changes on social security) as well as the increases that were already committed. But there are also substantial discretionary increases in priority services. It has been possible to agree such increases only because of reductions elsewhere due to the success of the Government's policies in reducing unemployment, encouraging Right to Buy sales of local authority housing, restraining expenditure under the Common Agricultural Policy, and continuing to improve the performance of the nationalised industries. In addition the Government's sound fiscal policy has reduced the burden of debt interest.

4. At Cabinet the Chancellor will set out the level of Reserves which he believes will be required, and, in the light of this, he will then put proposals to colleagues on the increased planning totals to be adopted for the next three years.

Running Costs and Manpower

5. Cabinet agreed the aim of keeping the running costs share of total expenditure roughly constant, and of making further progress with the policy introduced last year of concluding three-year running costs settlements reflecting plans to secure progressive efficiency gains over the Survey period.

6. I have reached three-year settlements with colleagues for most Ministerial departments, and have discussed with others the improvements needed for such settlements in the next Survey.

7. The settlements imply a growth rate for running costs over the survey period as a whole within the new growth rate for the planning total overall. For 1989-90 however, next January's White

X Paper will show total running cost provision over 7½% higher in cash than in 1988-89. This is a higher increase for the first year than in any recent White Paper. The White Paper will also show a rise of 11,000 in manpower from an estimated outturn this year of some 580,000 million to a planned manpower level of 591,000ⁱⁿ 1990-91.

8. This outcome on running costs is at the upper limit of consistency with our manifesto commitments to improve services and constrain costs. I hope colleagues will agree that three year settlements up to 1991-92 should not be further increased except where significant and essential developments make minor adjustments necessary in future Surveys; that planned efficiency gains should be monitored and delivered through regular management processes and improved upon wherever possible (eg on charge to agency status); and that new commitments pushing up Civil Service costs and manpower should be avoided.

Science and technology

9. The bilateral discussions on Science and Technology reflected the objectives agreed earlier by E(ST). Useful reductions over the Survey period were agreed in areas of low priority, including near market research, within the Energy, Agriculture, Trade and Industry programmes. But these were considerably smaller than the additions to DES spending on Science and Technology, which amount to at least £120 million a year. It is essential to find further significant savings in the 1989 Survey from both DTI and Agriculture programmes. In the meantime we can present very positively the changes we have made this year, including the increase of 20 per cent in expenditure on basic science between this year and next.

1988-89 outturn

10. The estimated outturn for the planning total in 1988-89 is [£153.6] billion, [£3.3] billion below the plans in Cm 288. A number of additions have been made to programmes during the current year, including the increase of over £1 billion in health

expenditure. These have been offset by higher privatisation proceeds, higher than expected local authorities and new towns receipts (exceeding the overspend on local authority capital expenditure), and lower social security expenditure resulting from the fall in unemployment.

Conclusions

11. I invite colleagues:

(a) to endorse the agreements I have reached on individual programmes;

(b) to note and endorse the conclusions on running costs in paragraphs 6-8 above;

(c) to note the estimated outturn for 1988-89.

[JM]

SUMMARY OF AGREED PROGRAMMES

CMO UNTIL 31/12/1988

	£ million		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Defence</u>	+ 1601	+ 610	+ 1025 ⁴

The additions recognise the pressure on the programme and result in a real increase in expenditure over the period 1988-89 to 1991-92.

<u>FCO (diplomatic wing)</u>	+ 26	+ 48	+ 71
------------------------------	------	------	------

Increases for scholarships and exchanges, running costs, BBC External services grant, security measures and new technology are offset in part by favourable overseas price movements and savings on broadcast relay stations.

<u>ODA</u>	+ 33	+ 76	+ 101
------------	------	------	-------

For the aid programme, the increases provide for the expected costs of the sub-Saharan debt initiative, and for the UK's contribution to the IMF ESAF; the settlement also provides additions to bilateral aid including ATP soft loans. On superannuation, provision is made for war service credit for former colonial servants.

<u>EC Contributions</u>	+ 500	+ 630	+ 230
-------------------------	-------	-------	-------

The sharp increase in the net contributions in 1989-90 and 1990-91 is a result of the Brussels agreement on the future financing of the Community, the buoyancy of imports, (which has led to an upwards revision of customs duties payable to the Community), more recent forecasts of consumers expenditure and GNP (resulting in higher VAT and GNP linked payments) and a very low forecast share of receipts from the Community budget.

IBAP - 421 - 396 - 268

The reductions are due to revised forecasts of the impact of CAP reform measures, of the size of UK harvests and (in 1989-90) of the effect of the American drought on world agricultural prices. The projections make some allowance for future devaluation of the Green Pound.

Other agriculture + 14 + 8 + 5

Increases for running costs, flood prevention, and other programmes are offset in part by estimating and policy reductions in capital grants, and by savings from increased funding by industry of R and D and ADAS.

Forestry + 9 + 12 + 14

Increases mainly reflect higher planting grants following the removal of tax relief in the 1988 Budget. Forestry Commission disposals programme has been increased and will be subject to a policy review.

DTI + 72 + 79 - 72

There are increases on: Regional Development Grants resulting from a surge in applications prior to closure of the scheme; Shipbuilding Intervention Fund Support; and for running costs and major works (mainly reflecting relocation plans). These increases are offset in part by reductions on support for innovation, and there is a reduced requirement in 1991-92 resulting from the run down of existing launch aid commitments.

ECGD + 56 + 27 - 34

Increased provision in the first two years on the interest rate support programme because of higher interest rate assumptions. Lower provision in the third year with a lower interest rate assumption.

Energy + 34 - 16 - 93

The changes result mainly from decisions on nuclear R&D programmes, notably to run down the fast reactor and fusion programmes, which generate redundancy and restructuring costs as well as savings. Further estimating savings arise on the Redundant Mineworkers Payments Scheme.

Employment - 205 - 305 - 405

Savings result from the rapid fall in unemployment and from the declining number of school leavers.

Transport + 324 + 398 + 406

The increases are primarily (285/346/362) for the new construction and maintenance of national roads and bridges, reflecting increased construction prices, continuing traffic growth and the extension of VAT to new construction work. There are also smaller increases for local authority capital (mainly roads and airports), and for the Department's running costs.

Environment - 1209 - 1073 - 799

Increased projections of receipts will yield some £4 billion over the three years. There are additions to gross capital spending on housing, of around £400 million a year and for the Urban block, and for the costs of preparation for the Community Charge.

PSA + 28 + 16 - 29

A combination of higher receipts from disposals and net rents and modest additions to the net baseline in 1989-90 and 1990-91 will enable the PSA to meet foreseeable requirements for major works, to continue to reduce the maintenance backlog and to invest in improved management structures, working towards full payment and untying in 1990 and Trading Fund status by 1993.

Home Office + 246 + 354 + 324

There are increases for prison building and prison manpower, and smaller increases for a range of non-prisons spending, partly offset by higher local authority capital receipts and other savings.

Lord Chancellor's Department
and other legal + 34 + 61 + 106

There are increases for legal aid, running costs, and court building; for the Serious Fraud Office; and for the Crown Prosecution Service, particularly in 1991-92.

Education + 363 + 405 + 370

The agreed additions provide for a real increase of some 10 per cent in the Science budget between 1988-89 and 1989-90; put the polytechnics and colleges on a sound footing for their new, independent status; allow the value of student awards to be maintained; and provide for £352 million capital allocations for local education authorities in England which will allow a continued programme of school improvements.

Arts and Libraries + 4 + 2 + 20

The settlement rolls forward the three-year programme agreed in the 1987 survey (with increases in the new third year, for example for incentive funding); and provides for the construction programme for the British Library, St Pancras project.

Health and Personal Social Services + 1256 + 1477 + 1896

Increases reflect the knock-on costs of this year's Review Body awards, the effect of demographic and other developments on hospital activity and demand in the Family Practitioner Services, the growing cost of AIDS, and increased provision for capital expenditure on equipment and maintenance. The likely costs of Whitley pay settlements are included in the settlement. There are offsetting savings from efficiency improvements and from a reduction in employers' superannuation contributions.

Social Security - 162 + 1621 + 3679

The reduction below baseline in 1989-90 is largely because of the fall in unemployment, which saves over £1½ billion a year compared with the last published plans. However, in 1989-90 this reduction is broadly offset by the net impact of estimating changes and higher than expected inflation and increased provision for housing benefit because of higher rents. These three factors increase in importance in the later Survey years and more than offset the continuing effect of lower unemployment. The main estimating increases are for the disability benefits. The increased provision takes account of extra help towards the average 20 per cent payment of community charge, the housing benefit concessions of last April and special assistance to low income families. To offset this, the Secretary of State has frozen child benefit and found savings from changes to the rules on benefits to the unemployed and, subject to the agreement of colleagues, from recovering benefits from tort damages awards.

Territorial Departments

Scotland	+171	+254	+348
Wales	+177	+180	+202
Northern Ireland	+136	+185	+272

The settlements for Scotland, Wales and Northern Ireland reflect broadly the normal working of the territorial block formula. They also reflect special additions made in respect of the recent ECJ ruling on VAT on new construction, and to take account of the impact of buoyant English local authority housing receipts on the territorial blocks in this, the last Survey under the present local authority capital control system.

Customs and Excise + 16 + 29 + 59

The additions provide for the costs of increasing workloads, net of cumulative efficiency savings of about 2½ per cent a year, and for the funding of an approved major computer project for the handling of import and export freight.

<u>Inland Revenue</u>	+ 48	+ 61	+ 66
-----------------------	------	------	------

Increases provide for the introduction of Independent Taxation. There are partial offsets from reductions in forecast costs of life assurance premium relief and mortgage interest rate relief to non-taxpayers.

<u>Nationalised industries</u>	- 4	- 13	+ 1373
--------------------------------	-----	------	--------

Cabinet's remit to keep total provision to baseline or less is fulfilled in years 1 and 2. The whole of the additional provision in year 3 is accounted for by the loss of electricity industry's substantial negative EFLs after privatisation. Settlement provides for increased capital investment in water industry to meet EC and domestic requirement, partially offset by price increases of 9.8 per cent. Large increases in London Regional Transport (LRT) to finance investment more than offset by reductions from baseline in other transport industries. LRT fares will rise by about 12 per cent and British Rail fares by 9.4 per cent. Electricity prices will rise around 6 per cent in 1989-90.

<u>Local authority relevant</u>	+1,715	+1,968	+2,196
---------------------------------	--------	--------	--------

Ministers agreed in July to make provision for relevant public expenditure in 1989-90 by local authorities in Great Britain which implies substantial increases over baseline. Figures for later years are broadly the same in real terms as the provision agreed for 1989-90.

SECRET

DRAFT SPEAKING NOTE FOR CHIEF SECRETARY AT PUBLIC EXPENDITURE CABINET

In July, Cabinet asked me to conduct bilateral discussions with colleagues. My memorandum sets out the results. I am pleased to report that I have now reached agreement with all colleagues. I would like to thank them for the very helpful and constructive approach they adopted in our discussions. Although it was not necessary in the event to call on the help of the Secretary of State for Energy's Group to recommend settlements on programmes, I am grateful to him and the Group for reserving time to help if necessary.

2. Cabinet asked me in July to hold bilateral discussions with the objective of keeping as close as possible to the existing planning totals and of ensuring that public spending as a proportion of national income continues to fall over the three Survey years from the level already reached.

3. This was a demanding objective:

X
X
- in July we agreed to increase provision for local authority relevant current expenditure in 1989-90 by ~~£1,650~~ 1.7 billion. We have subsequently agreed larger increases for the two later years.

- we had already agreed that the 1988 health Review Body awards should be financed from the Reserve for 1988-89, with inevitable knock-on effects for the Survey. We had also agreed in April to changes to social security rules. And there was a higher forecast for our net contribution to the EC.

- in addition, colleagues put in large bids. The total, including these previous commitments, amounted to about £9 billion in 1989-90, £13 billion in 1990-91, and £19 billion in 1991-92.

The prospect of achieving the Cabinet's remit looked, I must admit, bleak.

4. But in the course of bilateral discussion, and with the constructive help of colleagues, those bids have been scaled down by about half. The details of the settlements reached are at Annex A to my memorandum.

5. We have also been able to make substantial discretionary increases in priority services:

- an extra £1.2 billion is being provided for the NHS in England in 1989-90, and £1.4 billion in the following year. These are record additions. On top of them, the NHS will benefit from the additional resources generated by the cost improvement programmes and land sales, and from the reduction in employers' superannuation contributions, worth nearly £300 million a year.
- on law and order, there is an extra £280 million in 1989-90 and £415 million in 1990-91, mainly for extra prison building. There is also more for the police.
- gross provision for housing investment is up by over £400 million a year.
- on transport, there is an extra £325 million in 1989-90, rising to £400 million in 1991-92, mainly for national and local roads and other local transport facilities
- provision for education has been raised by £360 million in 1989-90. This includes extra money for basic science, for which provision increases by £120 million (20 per cent) between 1988-89 and 1989-90.
- Defence spending is to be increased by £160 million in 1989-90 and over £600 million in 1990-91.
- Nationalised industry investment is up by over £650 million.
- there are in addition increases for the territories.

All of these additions, along with the other additions agreed and irresistible estimating changes, total about £5.5 billion in 1989-90.

6. We have been able to agree such increases as a result, in large measure, of reductions elsewhere due to the success of the Government's policies:

- economic success has meant a large reduction in unemployment, with savings of £1½ billion in 1989-90 on social security, and further savings on employment programmes.
- our efforts to encourage local authorities to sell surplus assets and the success of the Right to Buy policy have mobilised substantial additional capital receipts.
- efforts to bring greater financial discipline to the Common Agricultural Policy have helped produce savings.
- the improved trading results of the nationalised industries have reduced their call on the Exchequer.
- the Government's sound fiscal policy has reduced burden of debt interest.

7. In spite of the extra room these reductions have offered, holding these increases to tolerable levels has involved some difficult policy decisions. Every department has had to face a squeeze, and there are some painful measures. The annex to my paper mentions the most important of these. The outcome has been that the total additions to programmes amount to £3½ billion in 1989-90 and £6.8 billion in 1990-91.

8. On Science and Technology the reductions in areas of low priority were less than half the additions to DES spending, which amount to at least £120 million a year. We must therefore find further significant savings next year from the DTI and Agriculture programmes. In the meantime we have a good story to tell, especially the 20 per cent increase in expenditure on basic science between this year and next.

9. In our July discussion a number of colleagues showed concern about running costs. Settlements should enable Ministers to deliver essential policies; but also keep up pressure for increased efficiency, to offset some of the cost pressures that the Government is facing. The overall running costs increase between this year and next is, at over 7½ per cent, higher than the comparable increases in recent years. It is important that we should watch the trend carefully for the remainder of this Parliament; and in particular that the three-year settlements I have now reached with most colleagues should hold unless there are really significant and essential developments which could justify some minor adjustment in future Surveys. If we can achieve that, the cost trend over this Parliament as a whole should be defensible.

10. It is also important that the efficiency gains promised in three-year management plans should be carefully monitored and delivered, and wherever possible improved upon. I intend in future Surveys to take stock jointly with individual colleagues of their departments' actual achievements in improving efficiency as well as their future plans.

11. The estimated outturn for the planning total in the current year is [£153.6 billion], [£3.3] billion below plan. Though a number of in-year programme additions have been made (notably over £1 billion for health expenditure), they have been offset by extra receipts (privatisation proceeds and LA receipts) and by underspending - mainly on social security due to lower unemployment.

12. In the light of these comments, and the other information in the memorandum, I invite colleagues to endorse my proposals.

CHANCELLOR'S SPEAKING NOTE FOR CABINET

Congratulate CST.

2. Thank colleagues.

3. July Cabinet in middle of period of gradually tightening monetary policy. Essential response to signs of growing inflationary pressures.

4. Latest forecast shows up errors in Budget forecast [FSBR and AS forecast summary tables attached]. Failed to appreciate strength of growth of output and, especially, domestic demand. Hence under-estimated inflation, government revenues and PSDR, and current account deficit. Strength of investment augurs well for future growth. Otherwise too much of a good thing.

5. Only isolated signs so far of benefits of tighter monetary policy (house prices, mortgages, retail sales). But expect slow down next year. Inflation usually lags after output. After continuing to rise for a few more months, should fall again after middle of year.

6. Need to keep interest rates high for some time. Need to support this - and retain market confidence - with firm expenditure control. Excellent that overall additions to programmes kept to reasonable level while finding room for additions to priority programmes.

7. In order to derive planning totals from the overall additions to programmes, need to consider privatisation proceeds and reserves. Propose to leave planning figure for privatisation programme unchanged at £5 billion a year.

8. Can already foresee substantial pressures on Reserves next year and in future. Eg on local authority current and capital. Propose to maintain Reserves of same levels as agreed last year: £3½ billion for 1989-90; twice that, £7 billion, for 1990-91; and three times that - £10½ billion - for 1991-92.

9. For 1989-90 Reserve was set in last year's Survey at £7 billion. 1989-90 was then middle of year of that Survey. Now first year. Can therefore reduce Reserve for that year to £3½ billion, and distribute balance to programmes. Result [see table I have distributed]: we can hold to published planning total for 1989-90.

X
10. For 1990-91 we will add some £6.8 billion to programmes as a result of the Survey; but reducing the Reserve to £7 billion means that planning total £3.⁵/₃ billion above published plans.

11. Planning totals for all three years of the Survey will then be £167.1 billion; £179.4 billion; and £191.6 billion.

12. Meets the objective Cabinet set itself in July of keeping as close as possible to existing planning totals. Maintains a declining path for the GDP ratios.

13. This year (1988-89) 39¼ per cent (ex pp: cf 42 per cent in PEWP and 41¼ per cent in FSBR). Three Survey years: 39 per cent; 39 per cent; 38¾ per cent. Lowest levels since 1966-67.

14. Growth of planning total over the three years rather too high for comfort, but offset by decline in debt interest (thanks to public sector debt repayments); thus real growth of GGE from 1987-88 to 1991-92 is 1¼ per cent a year (same as in plans last year).

15. In many ways a satisfactory outcome. I hope will improve upon market expectations. Also shifts balance of spending: less dictated by circumstances, more on priority programmes. But at absolute limit of what we can afford since allows only modest continuing decline in GGE ratios. At time when seeking to restrict growth of private sector spending, must not loosen restraint on public sector spending.

16. [National insurance contributions. ST to provide.]

17. Procedure. Cannot have printed document ready before the weekend. So will be published on Tuesday of next week. Longer than usual gap between now and then because of need to bring forward this meeting. So I propose to make Oral Statement this afternoon. Accompanied by Treasury Press Notices (on economic forecast, and figuring for Survey outcome). Arrangements have been made to coordinate these with the release of Departmental Press Notices.

TABLE 1: SURVEY OUTCOME

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. Baseline			
(a) Departmental programmes	165.1	170.7	174.9
less (b) Privatisation proceeds	- 5.0	- 5.0	- 5.0
plus (c) Reserves	+ 7.0	+10.5	-
equals (d) Planning Total	=167.1	=176.2	-
2. Additions to programmes	3.5	6.8	11.3
3. New Reserves required	3.5	7.0	10.5
4. Scope to draw down Reserves (1c-3)	3.5	3.5	-
5. Increase in planning totals (2-4)	-	3.3	-
6. New planning totals (1d+5)	167.1	179.4	191.6

* For 1991-92 there was an unpublished baseline for programmes, but no figures for Reserves or the planning total have been formally agreed. Only new levels for these will be published.

TABLE 2: PUBLIC EXPENDITURE TRENDS

	<u>£ billion</u>				
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Planning total	145.7	153.6	167.1	179.4	191.6
Add back privatisation proceeds	5.2	6.0	5.0	5.0	5.0
Add debt interest	17.5	17.7	17.1	16.0	15.8
Add national accounts adjustments	8.2	9.4	9.3	9.2	8.7
equals General government expenditure (excl priv proceeds)	176.7	186.7	198.5	209.7	221.1
Planning total % change real terms	1.5	- 0.8	3.6	3.8	3.7
GGE (excl priv proceeds) % change real terms	0.6	- 0.6	1.3	2.1	2.4
GGE (excl priv proceeds) % of GDP	$4\frac{1}{2}$	$39\frac{3}{4}$	$39\frac{1}{4}$	39	$38\frac{3}{4}$
cf last PEWP	($42\frac{1}{2}$)	(42)	($42\frac{3}{4}$)	($41\frac{1}{4}$)	(-)

BRIEFING FOR CABINET ON 1 NOVEMBER

INDEX

<u>Brief Number</u>	<u>Subject</u>
1	General defensive briefing
2	Survey outcome fact sheet
3	1988-89 outturn
4	Running costs
5	Science and Technology
6	Capital
7	Defence
8	FCO - Diplomatic
9	Aid
10	EC contributions
11	Agriculture and forestry
12	Industry
13	Energy
14	Employment
15	Transport
16	Housing
17	Other environmental services
18	Home Office
19	Legal
20	Education
21	Arts
22	Health
23	Social Security
24	Scotland
25	Wales
26	N Ireland
27	Customs and Revenue
28	PSA
29	Nationalised Industries
30	Local authority current and capital

With Autumn Statement showing higher inflation and further large current account deficit next year, more than ever essential to restrain expenditure if market confidence is to be retained. Expenditure planning is in cash, not volume. Colleagues have been able to negotiate against an emerging picture on inflation. Reported higher assumptions in July. Settlements reached in knowledge of many of factors leading to higher inflation assumptions: of which, a large part due to investment prices - eg in construction industry: again, a reason for restraint to avoid fuelling overheating.

If Minister x seeks to hold up agreement until given adjustment to his programme

Expenditure plans are in cash, not volume. Control totals are there to be held to. Cannot reopen plans at this stage. Essential that we present to public the plans outlined. Consequences of not agreeing today very serious indeed. // [If pressed: Cannot give any commitment to agreeing claims on Reserve but if any colleague finds his programme in serious political difficulty, naturally prepared to re-examine position]. // (See also brief on Defence). // [If decision taken by then: deferment by 4 months of imposition of VAT on new construction means windfall gain to many departments (especially DES, HO, DTp and territories); total windfall amounts to some [£80] million in 1989-90. Treasury has not tried to claw back, since believes in cash planning. Likewise, departments should absorb other price changes].

Kenneth Baker gets an inflation adjustment for student awards, why should not we?

[Mr Baker's letter of 17 October to Mr Ridley, copied to territorial ministers, said "I have ... settled provision for student awards with John Major on the basis that ... will be uprated in line with the GDP deflator".]

Simply reflects one effect of settlement reached with Secretary of State; does not represent any shift away from cash planning.

[If pressed: was this year crucial to show that awards are broadly maintaining real value, since we are not specifically reimbursing cost of community charge. Plans are in cash [see answer above]

Growth in GDP means we should be spending more, and can do within ratios

Cabinet agreed to keep as close as possible to cash planning totals. That's what markets will focus on. Exceptional growth this year means large step down in ratio in 1988-89. Settlements consistent with Cabinet remit of continued decline - although only just. Any higher spending would have meant failure to meet Cabinet remit. Economically wrong to expand public spending further at present time. Would jeopardise economic success, and make it harder to meet priority needs as handsomely as we have this year.

Current year outturn means lower Reserves needed?

[See also brief number 3]

No. Current year benefits from

- higher privatisation proceeds: may not be repeated;
- social security undershoot: reflects in part introduction of new regime in April, an effect which may not persist;
- higher capital receipts (RTB and New Towns): already taken into account in Survey for future years; and
- capital underspending eligible for end year flexibility

Severe risks next year: of overspend on local authority current and capital; EYF liability; EC contributions. Essential to maintain prudent Reserves. Chancellor has proposed maintaining at same level as in last Survey.

Current year outturn means room to spend more this year?

Extra privatisation proceeds and capital receipts no reason for spending spree. Control of public expenditure must continue to be and seen to be firm. [But willing to consider bringing expenditure forward to 1988-89 where offset by reductions in later years.]

New Planning Total means smaller Reserve needed in Survey period?

Still operating with existing planning total, so must show Reserves which commentators will see as credible in that framework.

Sticking to planning total in 1989-90 a fake: simply due to capital receipts?

Receipts are very substantial benefit to planning total. Reflect success of Government's RTB policy. Quite proper to score in planning total: counterpart to investment - which also scores - in housing. Benefit is another reflection of Government policy bearing fruit. In any case trend growth rate over Survey period not significantly affected if one took out receipts.

Increase in S&T envelope too big/too small?

[Science and Technology Provision (£m)]

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Total civil S&T	2,870	2,970	2,965	2,905
Total excl launch aid	2,670	2,840	2,890	2,930
Basic science	605	730	745	760

See also brief 5]

Increase for DES to maintain our national scientific commitment, and allow continued reshaping of the science base, selective re-equipment and important new research. Not possible to offset all of this in this Survey from savings in low priority areas. We shall need to secure further savings from DTI and Agriculture next year. Represents substantial increase in basic science, which we can present very positively. 20 per cent increase 1989-90 over 1988-89. [If pressed: E(ST) agreed we should reallocate sums from low priority to high priority areas, keeping within overall sums for S and T already in baseline. Cannot go any further beyond that decision].

Total civil science falling by end of Survey period

Excluding Launch Aid, the total rises each year. Right to exclude Launch Aid which distorts the profile of the totals: not a continuing programme and contractual payments end in 1990-91.

PUBLIC EXPENDITURE 1988-89

Brief 3

Factual

(i) Prospective outturn for 1988-89 planning total

- [£153.6] billion (although estimate still uncertain). Includes implications of Winter Supplementaries and claims expected later.
- Represents underspend of [£3.3] billion on PEWP and FSBR plans of [£156.9] billion (adjusted for classification changes).

(ii) Main reasons for underspend

- Increased privatisation proceeds £1.0 billion;
- Lower Social Security payments due to fall in unemployment £0.9 billion;
- Higher net receipts from local authorities and New Towns £0.7 billion;
- Revised expenditure forecasts for Intervention Board for Agricultural Produce £0.3 billion;
- Improved nationalised industry performance £0.3 billion.

(iii) Reserve

- Reserve in 1988 PEWP plans £3.5 billion.
- Agreed claims amount to over £2.0 billion. Offset by higher capital receipts than forecast and underspending elsewhere.

(iv) Main claims on Reserve

	£ million
End-year flexibility	770
Local authority relevant	1200
Local authority capital (gross)	1140
NHS and FPS pay review	890
Assistance to Rover Group	550

(v) Main benefits to the Reserve

	£ million
Privatisation proceeds	1,000
Extra capital receipts:	
LA capital receipts	1720
New Towns capital receipts	120
Net improvement in Nationalised industries (mainly Steel and Rail)	290

Reserve will also benefit from forecast underspending (eg social security and IBAP)

(vi) General government expenditure (GGE) excluding privatisation proceeds.

£ billion	1987-88	1988-89	
		PEWP (as published)	AS
Planning total (excl pp)	150.9	161.8	[159.6]
Debt interest	17.5	18.0	[17.7]
Other adjustments	8.2	8.0	[9.6]
Total GGE	176.7	189.0	186.9

(vii) GGE (excluding privatisation proceeds) as percentage of GDP estimated [39½] per cent in 1988-89. Compares with [41½] per cent in 1987-88.

Positive

(i) GGE (excluding privatisation proceeds) as percentage of GDP at lowest level since [mid 1960s]. Estimated [39½] per cent in 1988-89. Fallen from 45½ per cent in 1983-84 and [41½] per cent in 1987-88.

(ii) Underspend helped by continued strength of the economy. Lower unemployment £1.1 billion; £0.7 billion from higher net capital receipts of local authorities and new towns; £0.3 billion net from better results of nationalised industries. (Also £1 billion extra from privatisation proceeds.)

Defensive

(i) If underspending why not spend more elsewhere? Tight control of expenditure cornerstone of economic policy. No relaxation now. Outturn still uncertain. Undershoot on planning total substantially result of increased receipts. Some underspending eligible for end year flexibility.

(ii) What is "Adjustment" in Autumn Statement Table 1.3? "Adjustment" £[300] million shows difference between assessment of likely outturn for 1988-89 and sum of other items shown. Sum of differences of judgement. Adjustment regularly included in AS and PEWP tables.

(iii) Government unnecessarily miserly with expenditure this year? Over £2 billion of Reserve claims agreed, including extra £0.9 billion for NHS and FPS pay. Offset by higher receipts (privatisation proceeds, LA capital, New Towns) and effects of economic success (lower unemployment, better performance of nationalised industries).

(iv) Why not allocate more to programmes instead of Reserve? Reserve needed for unforeseen contingencies. Essential part of prudent expenditure control. Agreed claims on Reserve in 1988-89 already exceed £2 billion.

(v) Government currently planning for real falls in GGE? No. Over £2 billion added to programmes in both 1987-88 and 1988-89. Offset by higher than anticipated receipts and lower debt interest.

CONFIDENTIAL

RUNNING COSTS SUPPLEMENTARIES

Brief 4

New Baseline

1. Current baseline (after classification changes) and provisional outcome (with percentage increases over previous year) are:-

	1989-90	1990-91	1991-92	£m
Baseline*	13,454 (1.8)	13,847 (2.9)	14,192 (2.5)	
Provisional Outcome	14,227 (7.6)	14,882 (4.6)	15,503 (4.2)	

* later years held down artificially low in 1987 Survey

Rate of Increase 1989-90 over 1988-89

2. Now likely to be some 7.6% - ie 2.5% in real terms. Higher increase than in recent years (figures of 4.5% and 5.7% were quoted in the 1987 and 1988 White Paper respectively). At July Cabinet several colleagues expressed anxieties about running cost pressures. Settlements aim to maintain pressure for improved efficiency whilst enabling Ministers to deliver essential policies. Specific factors influencing totals include:-

- a. significant increases in accommodation costs
- b. more realistic departmental pay assumptions [mainly around 6-6.5% , but unwise to give any figure in Cabinet]
- c. increase in planned manpower levels in first two years of some 3,000
- d. modest extra provision for some departments either offset in PES terms by extra receipts or for assistance with relocation expenditure.

Consistency with Planning Total Growth

3. The planning total figures are (rate of growth in brackets):

	1988-89	1989-90	1990-91	1991-92	£m
	153,600	167,100 (8.8%)	179,600 (7.5%)	191,700 (6.7%)	

Provisional running costs growth is well within planning total growth (thereby meeting unpublished objective). Ratio of running costs to the planning total reduces from some 8.6% in 1988-89 to 8.1% by 1991-92, although bids in later Surveys may reduce this decrease.

Three-Year Settlements

4. Three year settlements reached with 30 departments (the majority). These should be held, barring significant and essential new developments. Of major departments only MOD, Health, DOE and PSA held to one year settlement. Later years' figures more realistic than even before.

Extra Receipts Generation/Relocation Assistance

5. 6 departments have opted for increases to their gross running costs totalling some £2.0 million on the promise of generating at least that much in extra receipts under the scheme approved by July Cabinet. In addition some departments have been granted modest assistance over the initial costs of relocation promising substantial benefits in later years. [The Paymaster General will report more fully on departments' relocation plans and progress in the early part of the next year].

What is implied for Civil Service Pay?

6. Departments have made own assumptions about likely paybill increases. Major developments in Civil Service pay will be subject to discussion with colleagues in the normal way.

Large Settlements for individual departments?

7. As usual, the large manpower-intensive departments - MOD, Employment, HO, Social Security, Inland Revenue - take the lion's share of extra cash.

Chancellor's Departments

8. Rate of increase for year 1 averages at 7.79%, boosted by 8.5% average increase for C&E and IR (see separate brief).

Below-average Settlements

9. Amongst major departments, only Scottish Office have settled (at 5.38%) significantly below average, thanks to well-constructed management plan.

Manpower

10. Current baseline and provisional outcome are:

	1988-89	1989-90	1990-91	1991-92
Baseline	591,400	587,300	587,700	587,900
Provisional Outcome	577,000*	590,900	591,000	589,000

*Staff in post 1 July

11. Several reductions, but offset by larger increases in Prisons and Land Registry.

CAPITAL AND INFRASTRUCTURE SPENDING

	1989-90	1990-91	£ million 1991-92
Additions to plans	3,100	2,900	[]
- of which due to VAT on new construction	250	320	340

Main Changes (excluding additions for VAT)

Prisons capital: 124/174/96 and agreement to 3,150 extra places by 1993. Also 19/22/21 for court building.

DOE Housing (gross): 441/339/415 of which LA spending 395/150/-59. Within these totals, LA renovation 185/5/-81, LA new housing provision 144/114/39, Housing Corporation 40/186/457.

NHS capital: 168/188/[] Biggest building programme in NHS history: over 500 major schemes underway in England with total value of £4 billion.

National roads: 111/151/154 on new road construction, 66/70/70 on structural maintenance and 48/39/36 on bridges. 35/47/33 increase in LA capital for local roads, Manchester LRT. Also extra provision for local airports.

Schools capital: []

Sensitive policy points

Massive reduction in net provision for housing? Reflects success of Government's right-to-buy policy. Important point is that gross spending - better measure of new assets created - is up. Plans provide for nearly £13 billion gross spending over 3 Survey years.

Points for Cabinet discussion

Not enough spending on capital/infrastructure? Gross public sector capital spending in 1987-88 broadly same in real terms as in 1978-79, despite deliberate policy of reducing state's role in providing new housing. In other areas, eg national roads and NHS capital, very substantial real increases. Survey builds on that record. By 1991-92 extra £[] billion will take public capital spending [] per cent higher than 1978-79 in real terms.

Public sector capital spending falling as share of GDP? Yes, but so is total public spending. Frees private sector for greater role.

Capital spending to decline in real terms despite additions? No. Spending planned to be higher in real terms in 1989-90 than both 1978-79 and 1987-88.