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PART F

SECRET

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PART F

BUDGET 1988 SCORECARD
AND OVERVIEW

PO -CH /NL/0120

PART F

DD's 25 years NAGS 11/2/95

31-10-88

CLOSED
CC: [unclear] [unclear]
PART **CK**

SCORECARD
COPY NO. 1 OF 15.

FROM: S J PICKFORD
DATE: 27 OCTOBER 1988

CHANCELLOR

*C3, B1, E2
6/10/88*

- cc Chief Secretary
- Sir P Middleton
- Mr Anson
- Sir T Burns
- Mr Monck
- Mr H Phillips
- Mr Odling-Smee
- Mr Sedgwick
- Mr Turnbull
- Mr Gieve
- Mr MacAuslan
- Mr Patterson
- Miss Simpson

*A1
This needs comment before
you leave if at all possible
I have marked some parts
AA*

AUTUMN STATEMENT BRIEFING

I attach a set of draft Autumn Statement briefs. Not included in this set are A2: Summary of main points (which will pick out the key facts from other briefs when they are finalised) and EE8: Employment (which is still being cleared with Mr Fowler). We are also considering with GEP whether to include a separate brief on capital receipts.

2. The briefs are in near final form, but in many cases they do not yet reflect the final numbers. We will be correcting them (where necessary) when the numbers are firm.

3. You do not need to look at all the briefs. The main policy issues are addressed in:

- A1 Strategy
- B1 Industry Act Forecast
- C1 Fiscal policy
- C3 Monetary policy
- E1 Public expenditure: 1988-89
- E2 Public expenditure: 1989-90 to 1991-92.

I have not sent you any others.

*kt
involved*

4. Because of the tight timetable we are working to, we have to ask for **comments to reach us by close of play tomorrow (Friday)**. The revised brief will then be circulated in final form before the Oral Statement.

Stephen Pickford

S J PICKFORD

1988 AUTUMN STATEMENT

MAIN BRIEF

A STRATEGY AND KEY POINTS

- A1 Strategy
- A2 Summary of main points

B ECONOMIC BACKGROUND

- B1 Industry Act forecast of the UK economy

C FISCAL AND MONETARY POLICY

- C1 Fiscal policy
- C2 Revenue prospects: 1988-89
- C3 Monetary policy

D NATIONAL INSURANCE

- D1 National insurance contributions

E PUBLIC EXPENDITURE: GENERAL

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

SUPPLEMENTARY BRIEF

BB ECONOMIC BACKGROUND

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

CC FISCAL AND MONETARY POLICY

- CC1 Public sector borrowing: historical statistics and international comparisons
- CC2 Tax ready reckoner
- CC3 Interest and exchange rates

EE PUBLIC EXPENDITURE: SPECIFIC BRIEFS

- EE1 Defence
- EE2 Overseas Development Administration and Foreign and Commonwealth Office (Diplomatic Wing)
- EE3 Net payments to European Community Institutions forestry
- EE5 Trade and Industry
- EE6 Exports Credits Guarantee Department
- EE7 Energy
- EE8 Employment
- EE9 Transport
- EE10 Housing (England)
- EE11 Other environmental services, including inner cities
- EE12 Home Office
- EE13 Lord Chancellor's Department and Legal Departments
- EE14 Education and Science
- EE15 Arts and Libraries
- EE16 Health and Personal Social Services
- EE17 Social security
- EE18 Other Departments
- EE19 Scotland, Wales, Northern Ireland
- EE20 Chancellor's Departments
- EE21 Departmental running costs
- EE22 Value for money
- EE23 Nationalised industries
- EE24 Privatisation
- EE25 Science and Technology
- EE26 Local authority current
- EE27 Local authority capital
- EE28 Infrastructure and other public sector capital
- EE29 Debt interest and other national accounts adjustments

SCORECARD

COPY NO: 4 OF: 24

FROM: J MACAUSLAN

DATE: 27 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: REVISED CABINET PAPER

I attach a revised draft of your paper for Cabinet, along with an Annex describing the settlements reached. These reflect your comments, and those of the Chancellor.

2. The next step would be for Carys Evans to send it across to Paul Gray, if possible this evening, for clearance with the Prime Minister.

3. We should then get it to the Cabinet Office tomorrow. But you may want to ask that it should only go out on the first run on Monday morning.

4. Mr Burr showed his redraft of the paragraph in the Annex on DE to DE officials. They raised no objection, but are showing it to Mr Fowler. There could be some comeback in the morning.

5. I will submit the briefing package, including the speaking notes, tomorrow.


J MACAUSLAN

SECRET

THIS DOCUMENT IS THE PROPERTY OF HER MAJESTY'S GOVERNMENT

C(88)

28 October 1988

Copy No

CABINET

1988 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, HM Treasury

At its meeting in July, Cabinet set the objectives 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 £1.7 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	2.2

In addition, further expenditure in the Survey years was committed as a result of previous decisions on the 1988 health Review Body awards, and on changes to the new social security regime. There were also increases necessary to meet new forecasts of our net payments to the EC. These three items amounted in total to a further £1.4 billion, £1.6 billion, and £1.2 billion in the three Survey years. Apart from these items of agreed additional expenditure, I was also faced with substantial additional bids on a large number of programmes, so that the total additions sought amounted to:-

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

(including local authority current expenditure)

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

3.5 6.8 11.3

I am grateful to colleagues for the reductions in their bids and the savings that they have agreed to provide.

3. Details of the settlements are at Annex A. These include large additions that were unavoidable (eg estimating changes on social security) as well as those increases that were already committed. But in addition to these, we have been able to agree substantial discretionary increases in priority services. These increases have been made possible by savings arising from the success of our policies in reducing unemployment, encouraging Right to Buy, restraining expenditure under the Common Agricultural Policy, and continuing to improve the performance of the nationalised industries. The Government's sound fiscal policy has also 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 planning totals to be adopted for the next three years.

Capital Spending

5. The new plans include extra ^{gross} provision for capital investment amounting to some £2½ billion in both 1989-90 and 1990-91. This includes increases for housing, hospitals, and prison and road building. It also includes additional investment by the water authorities on anti-pollution measures; by British Rail on service improvements; and by LRT and CAA on safety measures.

Science and Technology

6. The bilateral discussions on science and technology reflected the objectives agreed earlier by E(ST). I have agreed additions to DES spending on science and technology which amount to at least £120 million a year. This expenditure is partially offset by savings in areas of lesser priority within the Energy, Agriculture, and Trade and Industry programmes.

Running Costs and Manpower

*might state one figure per
@ approx 590,000
It will show planned manpower*

7. The settlements are within the agreed objective of keeping the running costs share of the planning total roughly constant, though next January's White Paper will show a higher increase in 1989-90 than in previous years, and a manpower increase of 11,000 over present levels to a planned 591,000 in 1990-91.

8. We need to ensure that our record on Civil Service costs and size remains defensible over the Parliament. To this end it is helpful that most colleagues have now agreed three year cash settlements that are only to be reopened where significant and essential developments make adjustments necessary. I hope to reach similar agreements with all remaining departments during next year's Survey.

1988-89 outturn

9. The estimated outturn for the planning total in 1988-89 is £153.6 billion, £3.3 billion below the plans in the last Public Expenditure White Paper. A number of additions have already been made to programmes during the current year, including the increase of over £1 billion in health expenditure. These increases 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

10. I invite colleagues:

- (a) to endorse the agreements I have reached on individual programmes;
- (b) to endorse the conclusions on running costs in paragraphs 7-8 above;
- (c) to note the estimated outturn for 1988-89.

JOHN MAJOR

SECRET AND PERSONAL

ANNEX A
CMO UNTIL 31/12/1988SUMMARY OF AGREED PROGRAMMES

1988 SURVEY OUTCOME: ADDITIONS TO BASELINE

£million

	1989-90	1990-91	1991-92
Ministry of Defence	161	610	1,024
FCO - Diplomatic, Information, Culture	26	48	71
FCO - Overseas Development Administration	33	76	101
European Communities	500	630	230
Intervention Board for Agricultural Produce	-421	-396	-268
Ministry of Agriculture, Fisheries and Food	14	8	5
Forestry Commission	9	12	14
Department of Trade and Industry	72	79	-72
Export Credits Guarantee Department	56	27	-34
Department of Energy	34	-16	-93
Department of Employment	-205	-305	-405
Department of Transport	324	398	406
DOE - Housing	-1,284	-1,002	-734
DOE - Other Environmental Services	75	-71	-64
Home Office	246	354	324
Legal departments	34	61	106
Department of Education and Science	363	405	370
Office of Arts and Libraries	4	2	20
Department of Health	1,256	1,477	1,896
Department of Social Security	-157	1,626	3,685
Scotland	171	254	348
Wales	177	180	202
Northern Ireland	136	185	270
Chancellor's Departments	35	90	193
Other Departments	39	56	100
DOE - Property Services Agency	28	16	-29
Nationalised Industries	-171	-272	-440
Privatisation EFLS	167	259	1,814
Local Authority Relevant	1,715	1,968	2,196
TOTAL ADDITIONS TO PROGRAMMES	3,498	6,812	11,258

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>	+ 161	+ 610	+ 1024

The additions recognise the pressure on the programme and, on the basis of current inflation forecasts, result in a real increase in expenditure over the period 1988-89 to 1991-92. The additions represent a firm three year agreement that will only be reopened in agreed exceptional circumstances.

<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 White Paper figures were necessarily based on the artificial assumption that the EC 1.4% VAT contribution would be maintained. The new figures reflect the effect of the new arrangements for the financing of the Community, and other factors such as the increased import duties paid to the Community as a result of the buoyancy of UK exports.

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 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 in provision for Regional Development Grants as a result of a surge in applications before closure of the scheme; for Shipbuilding Intervention Fund Support; and for relocation plans. The reduced requirement in 1991-92 results from the run down of existing launch aid commitments.

ECGD + 56 + 27 - 34

The changes reflect new economic assumptions.

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. In the two later years the reductions also reflect the transfer of nuclear safety research to HSC/HSE.

Employment

- 205 - 305 - 405

Savings result from the rapid fall in unemployment and from the declining number of school leavers. This has enabled substantial savings to be made on the Youth Training Scheme, while still meeting the Government's guarantee. A reduction has also been possible in adult training expenditure, though Employment Training remains a £1.4 billion programme. There is increased provision for stricter benefit administration.

There are also reductions - reduced, EA + adult Tr. exch.

Transport

+ 324 + 398 + 406

The increases are primarily for 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 roads and airports.

Environment

- 1208 - 1071 - 799

Increased projections of receipts from council house and other sales will yield some £4 billion over the three years. There are additions to gross capital spending on housing, of around £450 million a year. 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. There are also additions 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 a number of other savings measures.

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 an increase of some 16 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 sufficient capital allocations to allow local education authorities in England to continue a 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

The settlement represents the largest increase ever made available for the NHS. It provides for the increased salary costs resulting from the nurses' grading review and the 1988 Review Body pay awards. It also provides resources for service growth and to correct health authorities' accumulated revenue deficits. Provision has also been made to meet forthcoming Whitley pay settlements, the growing cost of AIDS treatment, and increased capital spending. Health authorities will also benefit from new cost improvement programmes and a reduction (of £277 million) in employers' superannuation contributions, bringing the total extra resources for the NHS in England alone to $\pounds 1\frac{3}{4}$ billion in 1989-90 and over £2 billion in 1990-91.

Social Security

- 158 + 1626 + 3685

Lower unemployment has led to considerable savings on this programme, amounting to over £1½ billion in 1989-90. This saving has been offset in 1989-90 by increases elsewhere, notably a large rise in the estimated cost of disability benefits. In the later years these increases greatly exceed the savings from lower unemployment. Child benefit has been frozen as last year, and more help has been provided for poorer families.

Territorial Departments

Scotland	+168	+254	+348
Wales	+177	+180	+202
Northern Ireland	+136	+185	+269

The settlements for Scotland, Wales and Northern Ireland reflect broadly the normal working of the territorial block formula. They also include sums for regional development outside the blocks and special additions made in respect of the recent ECJ ruling on VAT.

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.

Inland Revenue

+ 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.

Nationalised industries

- 4 - 13 + 1373

Cabinet's remit to keep total nationalised industry 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 requirements, partially offset by price increases of 9.8 per cent. Large increases in London Regional Transport (LRT) to finance investment are 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.

Local authority relevant

+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.

Page

SCORECARD
COPY No *2* OF 24 COPIES

FROM: A TURNBULL
DATE: 27 OCTOBER 1988

CHANCELLOR OF THE EXCHEQUER+1

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

FINALISING THE FINALISING

You asked whether it would be possible to show the GGE/GDP ratio in 1989-90 as 39½ per cent. We have found a way of doing this:

i. show money GDP figures as 471/508/539/569, ie £1 billion off in all three future years. We do not need to disturb the 1988-89 figures at the rounded level. We would still show the increase in money GDP as increasing by 8 per cent next year;

ii. to produce 39½ per cent we need GGE excluding privatisation proceeds at £198.7 billion. This requires about £450 million extra on national accounts adjustments and £300 million extra on debt interest. The latter, unrounded, becomes £17.2 billion rather than £16.9 billion. The rounded figures remain at £9.5 billion and £17 billion.

AT

A TURNBULL

SECRET AND PERSONAL

FILE BRIEFS\CHELEAS UPDATED 27.10.88 11am

	GGE	Planning Total	Privat Proceeds	GDP	Deflator	GGE/GDP	REAL PT	GGE excl priv proc	Plan tot exc p.proc	PT exc p.p real	GGE ex p.p /GDP	GGE REAL	GGE ex p.p REAL
1963-64	11.3	9.9	0.0	31.4	0.12287	36.25	80.6	11.3	9.9	80.6	36.25	92.3	92.3
1964-65	12.3	10.8	0.0	34.1	0.12856	36.00	84.1	12.3	10.8	84.1	36.00	95.3	95.3
1965-66	13.6	12.0	0.0	36.6	0.14054	37.25	85.6	13.6	12.0	85.6	37.25	96.8	96.8
1966-67	15.1	13.3	0.0	38.8	0.14645	38.75	91.0	15.1	13.3	91.0	38.75	102.8	102.8
1967-68	17.5	15.5	0.0	41.2	0.15112	42.25	102.8	17.5	15.5	102.8	42.25	115.5	115.5
1968-69	18.2	16.1	0.0	44.6	0.15827	41.00	102.0	18.2	16.1	102.0	41.00	115.2	115.2
1969-70	19.3	17.0	0.0	48.0	0.16715	40.25	101.9	19.3	17.0	101.9	40.25	115.6	115.6
1970-71	21.6	19.1	0.0	53.1	0.18034	40.75	105.7	21.6	19.1	105.7	40.75	119.8	119.8
1971-72	24.4	21.4	0.0	59.2	0.19766	41.25	108.5	24.4	21.4	108.5	41.25	123.3	123.3
1972-73	27.6	24.8	0.0	67.5	0.21272	41.00	116.6	27.6	24.8	116.6	41.00	129.9	129.9
1973-74	32.0	29.3	0.0	74.8	0.22759	42.75	128.6	32.0	29.3	128.6	42.75	140.5	140.5
1974-75	42.9	39.3	0.0	89.1	0.27199	48.25	144.6	42.9	39.3	144.6	48.25	157.6	157.6
1975-76	53.8	48.8	0.0	110.8	0.34177	48.50	142.9	53.8	48.8	142.9	48.50	157.5	157.5
1976-77	59.6	54.4	0.0	129.4	0.38669	46.00	140.8	59.6	54.4	140.8	46.00	154.1	154.1
1977-78	63.9	56.8	0.5	150.8	0.44024	42.25	129.1	64.4	57.4	130.3	42.75	145.0	146.3
1978-79	75.0	65.7	0.0	173.0	0.48735	43.25	134.9	75.0	65.7	134.9	43.25	153.8	153.8
1979-80	89.9	77.6	0.4	207.7	0.56955	43.25	136.2	90.3	78.0	136.9	43.50	157.9	158.6
1980-81	108.6	92.7	0.4	236.6	0.67460	46.00	137.4	109.0	93.1	138.0	46.00	160.9	161.5
1981-82	120.5	104.0	0.5	259.8	0.74104	46.50	140.4	121.0	104.5	141.0	46.50	162.6	163.3
1982-83	132.6	113.6	0.5	284.7	0.79398	46.50	143.0	133.1	114.1	143.7	46.75	167.0	167.6
1983-84	140.4	120.4	1.1	308.6	0.83014	45.50	145.0	141.6	121.5	146.4	45.75	169.2	170.5
1984-85	150.6	129.9	2.2	330.5	0.87214	45.50	148.9	152.8	132.0	151.4	46.25	172.7	175.2
1985-86	158.2	133.8	2.7	361.1	0.91922	43.75	145.6	160.9	136.5	148.5	44.50	172.1	175.0
1986-87	164.4	139.3	4.5	385.7	0.94988	42.75	146.7	168.9	143.8	151.4	43.75	173.1	177.8
1987-88	171.5	145.7	5.2	424.5	1.00000	40.50	145.7	176.7	150.9	150.9	41.50	171.5	176.7
1988-89	180.9	153.6	6.0	470.7	1.06250	38.50	144.6	186.9	159.6	150.2	39.75	170.2	175.9
1989-90	193.7	167.1	5.0	507.8	1.11562	38.25	149.7	198.7	172.1	154.2	39.25	173.6	178.1
1990-91	205.0	179.4	5.0	538.7	1.15467	38.00	155.4	210.0	184.4	159.7	39.00	177.5	181.8
1991-92	216.0	191.6	5.0	568.7	1.18931	38.00	161.1	221.0	196.6	165.3	38.75	181.6	185.8

ANNUAL AVERAGE PERCENTAGE CHANGES

	REAL PT	REAL PT ex p.p	REAL GGE	REAL GGE ex p.p
1968-69 TO 1978-79	2.8	2.8	2.9	2.9
1978-79 to 1982-83	1.5	1.6	2.1	2.2
1982-83 to 1987-88	0.4	1.0	0.5	1.1
1987-88 to 1991-92	2.5	2.3	1.4	1.3
1988-89 to 1991-92	3.7	3.2	2.2	1.8
1978-79 to 1987-88	0.9	1.3	1.2	1.6



Right. My
But
Amplification
of CS
decision.

Ch

One presentational point
worrying CST (primarily for Cabinet
I think) was

<u>Bids</u> £ 9 bn	Net additions & programmes	£ 3½ bn
	Extrn receipts & savings	£ 3½ bn
		<hr/>
		£ 7bn

So laterals conceded 3/4 of bids.

CST's
Answer is that 'extrn receipts
& savings' already substantially
netted off in £ 9bn bids. So
more we conceded £ 7bn out of
£ 11 bn plus.

(My answer is "ask colleagues if they
think CST was soft touch")

AA

Maizus



Score card
copy no 17 of 19

MP

FROM: A P HUDSON
DATE: 27 October 1988

PS/CHIEF SECRETARY

- cc Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Odling-Smee
- Mr Luce
- Mr Sedgwick
- Mr Turnbull
- Mr MacAuslan
- Mr Gieve
- Mr Pickford
- Miss Simpson
- Mr Tyrie

AUTUMN STATEMENT: ORAL STATEMENT

The Chancellor was grateful for the draft oral statement attached to Mr Odling-Smee's 21 October minute.

- ... 2. The Chancellor has recast this somewhat, and I attach the revised draft. He will be doing more work on it during the weekend. Please could I have comments, including all blanks filled and square brackets removed by 5.00pm tomorrow (Friday 28).

APH

A P HUDSON

SECRET**AUTUMN STATEMENT 1988: ORAL STATEMENT:
FOURTH DRAFT**

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 can therefore set out for the House this afternoon the public expenditure plans for the next three years, and the expected outturn for this year; proposals for national insurance contributions; 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, 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, around [£3] billion less than was allowed for in the last Public Expenditure White Paper. This means, in effect, that less than £½ billion of the Reserve of £3½ billion will be needed. We have seen both higher receipts, from the privatisation programme and from local authorities and new towns, and lower spending on programmes, reflecting, in particular, 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, excluding privatisation proceeds, the share of gross domestic product going in public expenditure will be below 40 per cent - the first time this has happened for over 20 years [since 1966-67]. Since 1982-83, this ratio has fallen nearly 7 percentage points, the largest and longest sustained fall since the wartime economy was unwound.

7. Not so long ago, the share of national income spent by the State seemed set to rise inexorably. Now, it is on a firm downward trend.

8. On the receipts side, total Government revenues are likely to exceed the Budget forecast by almost £4 billion. This is mainly the result of stronger economic growth. Both income tax and VAT have been particularly buoyant.

9. In 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. With higher Government revenues and lower than expected public expenditure, I now expect this year's PSDR to be £10 billion, equivalent to $2\frac{1}{4}$ per cent of GDP.

10. This is the second successive year of surplus, something that has not been achieved since [when?]. Even without privatisation proceeds, the Budget is set to be in substantial surplus, by around £4 billion, [for only the second time since the beginning of the 1950s.] No other major industrial country has such sound public finances.

11. A debt repayment of the size now expected has clear implications for the operations of the authorities in the gilts market. My objective remains the same as it has been for some years now: to neutralise the impact of the public sector on the monetary system, and to do no more and no less. With a very large debt repayment, this means that we no longer have to make net sales of gilts, [though there may be sales from time to time to improve the quality of the outstanding debt, and reduce the cost of servicing it.] But overall, we need to buy gilts in - and on a substantial scale. [I therefore need to amend slightly the announcement I made last month that there would be no more gilt auctions for the foreseeable future. The Bank of England will be holding an auction

soon - but it will be a reverse auction, at which the Bank will invite tenders of stock for redemption. This will be a new weapon in the Bank's armoury and - like the Budget surplus - unique. The Bank will be announcing the details in due course, and I shall, naturally, make sure the information is available to the House.]

Public expenditure plans 1989-90 to 1991-92

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

13. In July, Cabinet set itself the objectives of keeping as close as possible to the existing planning totals, and of ensuring that public spending as a share of national income continued to fall from its present level. The plans that I am about to announce meet both of those objectives.

14. For 1989-90, there will be no change at all to the existing planning total of £167.1 billion. For 1990-91, the planning total will be [£179.5 billion], an increase of [£3½ billion] on last year's plans. The planning total for 1991-92 will be set at [£191.5 billion].

15. These totals include the same prudent levels of reserves as in last year's plans; that is £3½ billion for the first year, rising to £10½ billion in the third. They also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

16. Over the past ten years, public spending has grown by [just over 1½] per cent a year, compared with [nearly 3] per cent in the previous 10 years. In the succeeding three years, that is the three survey years, public spending is planned to grow in real terms by 1¼ per cent on average, well within the prospective growth of the economy as a whole. Public spending, excluding privatisation proceeds, will thus continue to decline slightly as a proportion of national income.

17. But since national income has grown strongly and steadily, this means that we can meet our overall objective while still providing substantial resources for the Government's priority programmes. Indeed, our scope for doing this is further increased by the falling burden of debt interest as a result of the Government's debt repayments. This means that whereas total spending is planned to grow by 1¼ per cent a year, spending on programmes is planned to grow by [double] that, at [2½] per cent a year. Thus, within the unchanged planning total for next year, these will be substantial additional resources for the Government's most important priorities.

18. First, health. An extra £1¼ billion is being provided for the National Health Service in England alone in 1989-90, with a further £1½ billion the following year. [There will be corresponding increases in Scotland, Wales, and Northern Ireland.] On top of that,

the Health Service will benefit from an extra £150 million in 1989-90, and £300 million 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. [Need to redraft to make clear that this is GA's recommendation.] So in total, we are providing an extra £1 $\frac{3}{4}$ billion for the Health Service next year, and an extra £2 billion the following year. These are by far the largest increases ever provided.

18. Second, roads. An extra £220 million is being provided next year for building and repairing motorways and trunk roads, and for strengthening bridges, with a further £260 million the following year.

19. Third, housing. Gross provision for public sector housing investment is being increased by over £400 million a year. But thanks to the success of the Government's right to buy policy, this is more than financed by extra receipts.

20. Fourth, law and order. An extra £290 million has been made available in 1989-90 and £430 million in 1990-91, principally for a further expansion in the prison building programme. This will provide a further

3,000 places by 1991-92. Provision for local authority spending on the police has also been increased by over £250 million.

21. Defence spending is to be increased by £150 million in 1989-90 and £600 million in 1990-91. [The plans here represent a firm, three-year settlement, which provides sufficient resources to meet our defence commitments, and enables the Ministry of Defence to plan well ahead in the certainty that these resources will be available.]

22. On social security, falling unemployment has saved well over £1½ billion in each of the next three years. But substantial increases in other benefits, particularly for the disabled, mean~~x~~ that the social security programme will be broadly unchanged in 1989-90, and around [£1.7 billion] higher than previously planned in 1990-91.

23. [Overall spending on science and technology has been increased substantially. Within that total, resources have been concentrated on areas where the Government has a particular role to play, rather than those where research is better done in the private sector. Provision for spending on science and technology by the Department of Education and Science has thus been increased by £120 million a year, with the science budget up by 16 per cent.]

24. [The new plans contain an overall increase of £x million in capital spending. This includes extra investment in hospitals, housing, prisons, and roads. In addition, there is provision for higher investment by the nationalised industries, including anti-pollution measures by the Water Authorities. We have also provided fully for all the new safety measures identified by London Regional Transport following the King's Cross disaster.]

25. The details of these and other changes are provided in the material in the Vote Office. More details will be published in the printed Autumn Statement next week. [Passage on the replacements for the PEWP deleted at the Chief Secretary's suggestion. He thinks this material could go in a Press Release to accompany the printed Autumn Statement.]

26. 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.

27. 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.

28. Over recent years, there has been a steady reduction in the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. From X% in 1979 it now stands at 5 per cent. My RHF and I now propose to carry this policy forward to its logical conclusion and to abolish the Supplement. The necessary legislation will be introduced early in the new Session.

29. 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 unchanged at 9 per cent for employees and 10.45 per cent for employers.

Industry Act Forecast

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

31. Growth this year looks to be turning out at $4\frac{1}{2}$ per cent. Investment has been particularly strong, growing twice as fast as consumption, with manufacturing investment showing [the biggest rise of all, at A per cent.]

32. This performance is well ahead of that expected earlier this year. The continuing vigour of the British economy, now in its eighth successive year of growth, is testimony to the transformation that has taken place in the supply side of the economy.

33. The seven years to 1988 are set to be the steadiest period of growth since the War, at an average rate of [well over] 3 per cent that has rarely been equalled in that time.

34. As a result, unemployment has been falling rapidly. Since the middle of 1986, unemployment has fallen by very nearly one million - the fastest fall on record, and faster than in any other major country.

35. Inflation, as measured by the retail price index, is likely to be a little over 6 per cent in the fourth quarter of this year. Most of the rise in inflation reflects the impact of higher interest rates: these are essential to get inflation firmly back on a downward trend. Excluding mortgage interest payments, the RPI in the fourth quarter will be around 5 per cent.

36. Exports have continued to perform well, with manufactured exports, up $7\frac{1}{2}$ per cent over the past year. The UK's volume share of world trade has remained steady after decades of decline and indeed has risen slightly over the past two years. With investment booming, and

consumer spending increasing fast, imports have risen rapidly, by 13 per cent in the year to the third quarter, and this has contributed to a substantial rise in the current account deficit. I now expect this to be £13 billion this year, equivalent to $2\frac{1}{4}$ per cent of GDP.

x 37. Looking ahead to 1989, [the impact of higher interest rates ^{which} have already had an effect on the housing market, will extend more widely.] I expect domestic demand to grow at 3 per cent next year, about half this year's rate. Consumer spending should rise by $3\frac{1}{2}$ per cent, though slowing sharply in the course of the year. Business investment, however, is set to continue to grow strongly at 7 per cent.

38. The economy as a whole is forecast to grow by 3 per cent next year, with the non-oil economy, which is particularly important for employment prospects, up $3\frac{1}{2}$ per cent. Unemployment should continue to fall.

39. While there is likely to be some further rise in inflation between now and the first half of next year, I expect inflation to be firmly on a downward trend in the second half; it is forecast to be 5 per cent by the fourth quarter. The defeat of inflation will remain the top priority in economic policy, as it has done since 1979.

40. The current account deficit is likely to be around £11 billion in 1989, though it should be on a downward trend by the end of the year.

41. Thus growth in 1989 will be slightly below the trend of recent years, after two years which have been well above. [Is 3½ per cent growth for non-oil GDP actually below trend? If not, rephrase.] This slowdown is entirely desirable, and indeed necessary, given the cardinal importance of keeping on top of inflation. And it is a testimony to the improvement in the supply side of the economy that such a slowdown brings us to a growth rate only achieved [twice] in the whole of the 1970s.

Peroration

42. Mr Speaker, the prospect for next year is for further growth, with inflation coming down. The public finances are in substantial surplus, with public spending increasing on priorities, while falling as a share of GDP.

43. That excellent prospect is the result of the policies this Government has pursued for over nine years now. And those are the policies we shall stick to.

SECRET AND PERSONAL

FILE BRIEFS\CHELEAS UPDATED 27.10.88 11am

	GGE	Planning Total	Privat Proceeds	GDP	Deflator	GGE/GDP	REAL PT	GGE excl priv proc	Plan tot exc p.proc	PT exc p.p real	GGE ex p.p /GDP	GGE REAL	GGE ex p.p REAL
1963-64	11.3	9.9	0.0	31.4	0.12287	36.25	80.6	11.3	9.9	80.6	36.25	92.3	92.3
1964-65	12.3	10.8	0.0	34.1	0.12856	36.00	84.1	12.3	10.8	84.1	36.00	95.3	95.3
1965-66	13.6	12.0	0.0	36.6	0.14054	37.25	85.6	13.6	12.0	85.6	37.25	96.8	96.8
1966-67	15.1	13.3	0.0	38.8	0.14645	38.75	91.0	15.1	13.3	91.0	38.75	102.8	102.8
1967-68	17.5	15.5	0.0	41.2	0.15112	42.25	102.8	17.5	15.5	102.8	42.25	115.5	115.5
1968-69	18.2	16.1	0.0	44.6	0.15827	41.00	102.0	18.2	16.1	102.0	41.00	115.2	115.2
1969-70	19.3	17.0	0.0	48.0	0.16715	40.25	101.9	19.3	17.0	101.9	40.25	115.6	115.6
1970-71	21.6	19.1	0.0	53.1	0.18034	40.75	105.7	21.6	19.1	105.7	40.75	119.8	119.8
1971-72	24.4	21.4	0.0	59.2	0.19766	41.25	108.5	24.4	21.4	108.5	41.25	123.3	123.3
1972-73	27.6	24.8	0.0	67.5	0.21272	41.00	116.6	27.6	24.8	116.6	41.00	129.9	129.9
1973-74	32.0	29.3	0.0	74.8	0.22759	42.75	128.6	32.0	29.3	128.6	42.75	140.5	140.5
1974-75	42.9	39.3	0.0	89.1	0.27199	48.25	144.6	42.9	39.3	144.6	48.25	157.6	157.6
1975-76	53.8	48.8	0.0	110.8	0.34177	48.50	142.9	53.8	48.8	142.9	48.50	157.5	157.5
1976-77	59.6	54.4	0.0	129.4	0.38669	46.00	140.8	59.6	54.4	140.8	46.00	154.1	154.1
1977-78	63.9	56.8	0.5	150.8	0.44024	42.25	129.1	64.4	57.4	130.3	42.75	145.0	146.3
1978-79	75.0	65.7	0.0	173.0	0.48735	43.25	134.9	75.0	65.7	134.9	43.25	153.8	153.8
1979-80	89.9	77.6	0.4	207.7	0.56955	43.25	136.2	90.3	78.0	136.9	43.50	157.9	158.6
1980-81	108.6	92.7	0.4	236.6	0.67460	46.00	137.4	109.0	93.1	138.0	46.00	160.9	161.5
1981-82	120.5	104.0	0.5	259.8	0.74104	46.50	140.4	121.0	104.5	141.0	46.50	162.6	163.3
1982-83	132.6	113.6	0.5	284.7	0.79398	46.50	143.0	133.1	114.1	143.7	46.75	167.0	167.6
1983-84	140.4	120.4	1.1	308.6	0.83014	45.50	145.0	141.6	121.5	146.4	45.75	169.2	170.5
1984-85	150.6	129.9	2.2	330.5	0.87214	45.50	148.9	152.8	132.0	151.4	46.25	172.7	175.2
1985-86	158.2	133.8	2.7	361.1	0.91922	43.75	145.6	160.9	136.5	148.5	44.50	172.1	175.0
1986-87	164.4	139.3	4.5	385.7	0.94988	42.75	146.7	168.9	143.8	151.4	43.75	173.1	177.8
1987-88	171.5	145.7	5.2	424.5	1.00000	40.50	145.7	176.7	150.9	150.9	41.50	171.5	176.7
1988-89	180.9	153.6	6.0	470.7	1.06250	38.50	144.6	186.9	159.6	150.2	39.75	170.2	175.9
1989-90	193.7	167.1	5.0	507.8	1.11562	38.25	149.7	198.7	172.1	154.2	39.25	173.6	178.1
1990-91	205.0	179.4	5.0	538.7	1.15467	38.00	155.4	210.0	184.4	159.7	39.00	177.5	181.8
1991-92	216.0	191.6	5.0	568.7	1.18931	38.00	161.1	221.0	196.6	165.3	38.75	181.6	185.8

1978-9 } -2.4%
 m 1974-5 }
 1988-9 m } +0.4%
 1980-5' }
 1989-90 m } +1 1/4%
 1988-9 }

1978-79 } 3.5
 3.8
 3.7

-0.62
 1987-88
 1988-89
 2 1/2
 3 1/2
 3 1/2
 2.66
 3.57
 3.51
 3.74
 3.247
 2.7
 3.6
 3.5

ANNUAL AVERAGE PERCENTAGE CHANGES

	REAL PT	REAL PT ex p.p	REAL GGE	REAL GGE ex p.p
1968-69 TO 1978-79	2.8	2.8	2.9	2.9
1978-79 to 1982-83	1.5	1.6	2.1	2.2
1982-83 to 1987-88	0.4	1.0	0.5	1.1
1987-88 to 1991-92	2.5	2.3	1.4	1.3
1988-89 to 1991-92	3.7	3.2	2.2	1.8
1978-79 to 1987-88	0.9	1.3	1.2	1.6

16 88/9: under 1 1/2 %



FROM: A C S ALLAN

DATE: 27 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 Sedgwick
Mr MacAuslan
Mrs Butler
Mr Richardson
Mr Hansford
Mr Mowl
Mr Gieve
Mr Pickford
Miss Walker
Mr Call
Mr Tyrie

FINALISING THE FINALISING

The Chancellor was most grateful for your minute of 27 October and congratulates you on your solution for the GGE/GDP ratio in 1989-90. He is content with what you propose.

2. He did query why the increase in money GDP next year remained at 8 per cent even though the change in the rounded figures seemed to indicate an increase of $7\frac{3}{4}$ per cent. You explained to me that the increase was calculated on the unrounded numbers.

A handwritten signature in black ink, appearing to read 'ACSA' with a large flourish underneath.

A C S ALLAN

SCORECARD
NO. 20 OF 22 COPIES

FROM: A C S ALLAN

DATE: 27 October 1988

MR TURNBULL

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

FINALISING THE SURVEY

The Chancellor was grateful for your minute of 26 October. He feels this is a very good outcome. However it would be a pity to spoil it by failing to secure 39½ per cent in 1989-90. He believes this can most readily be achieved by:

- (a) shaving £1 billion off money GDP in 1988-89 and 1989-90 (to become 470 and 508); and
- (b) adding £½ billion to the total of debt interest and NAA in 1989-90 to produce GGE excluding privatisation proceeds of 198.8.

3. He is otherwise content.

A handwritten signature in black ink, appearing to read 'ACSA' with a stylized flourish underneath.

A C S ALLAN

SCORE CARD
NO. 24 OF 25 COPIESFROM: A C S ALLAN
DATE: 27 October 1988

MR MACAUSLAN

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
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 J C Simpson
Miss Walker
Mr Tyrie
Mr Call
Mrs Crane**AUTUMN STATEMENT: WRITTEN STATEMENT, CHAPTER 1**

... The Chancellor was grateful for your minute of 25 October. I attach a copy of paragraphs 1.01 to 1.19 and 1.75 to 1.78 inclusive. The Chief Secretary will be letting you have comments on paragraphs 1.20 to 1.74 separately.

2. On the charts and tables, the Chancellor had the following comments:

- (i) charts 1.1 and 1.2 should have their outer frames deleted and should be redrawn in the same style as agreed for Chapter 2;
- (ii) chart 1.1 should extend back to 1963-64;
- (iii) the 0%, 1%, 2% and 3% gradients in chart 1.2 should be omitted. And the Chancellor was not convinced that the line excluding privatisation proceeds was correct; he



...

drew his own version (attached) which shows a rather different profile;

- (iv) omit tables 1.1 and 1.3;
- (v) in table 1.4, the Departmental names should appear again at the extreme right;
- (vi) in table 1.6, is the significance of the footnote on the cost of servicing indexed securities explained anywhere? If not, it should be omitted;
- (vii) why have tables 2.1 and 2.2 from last year's Autumn Statement been omitted? They should be included, and can replace the present tables 1.1 and 1.3.

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

A C S ALLAN

Public expenditure plans

Main points

for the first time in over

and excluding privatisation proceeds,

is expected to

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 ^{some} about 7 percentage points since 1982-83. Over the next three years, it is expected to continue to fall ^{slightly} reaching the lowest level since 1966-67.

government spending excluding privatisation proceeds

1.02 ^{In real terms,} The plans for ^{the next three years} government spending should allow growth in ^{ing} 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.

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, ^{an increase of} ~~up~~ £3 1/2 billion on previous plans; and that for 1991-92 at £176.1 billion. ^{As last year,} these totals include Reserves ~~to meet unforeseen requirements~~ of £3.5 billion, £7 billion and £10.5 billion respectively.

1.04 Compared with the plans published in Cm 288, ^{spending on} ~~extra~~ resources ^{include} have been provided to meet the Government's priorities, ^{these} ~~including~~ 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.

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,~~ ^{roads, housing, prisons and the nationalised industries}

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 ^{asa} proportion ~~to~~ of national income.

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.

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.

1.09 Within ^{the} ~~that~~ framework ^{of the Medium Term Financial Strategy} the Government's ^{overall} ~~are~~ ^{for public expenditure} ~~to~~ hold ^{is} ~~the~~ rate of growth ~~of public spending~~ below the growth of the economy as a whole, ~~and~~ thus ~~to~~ ^{while constantly} ~~reducing~~ public spending as a proportion of national income, ~~and to~~ ^{improving} 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.~~

1.10 This objective is expressed in terms of general government expenditure (GGE) as a ^{proportion of} ~~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 ⁱⁿ ~~for~~ the formulation of macro-economic policy and ⁱⁿ the MTFS.

1.11 For the purposes of planning and control, ^{however,} 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.

1.12 The planning total is built up from the control totals set for individual departmental programmes. It ^{differs from} ~~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.

a number of respects, A which ~~is~~ far and away the most important is the exclusion of

Chart 1.1

Table 1.1

wrongly drawn
delete

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

redraw

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, ^{in line with that} ~~this maintains~~ the steady rate of growth projected in Cm 288.

redraw

the last Public Expenditure White Paper,

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.

of Scotland, Wales & Northern Ireland

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. ^{Corresponding} ~~Appropriate~~ additions have been made to the ~~territorial~~ block budgets. ^{for those} 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.

Should use UK NHS numbers too.

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

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.]~~ *is now repaying the national debt and thus reducing the burden of debt interest.*

Table 1.4

Defence

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.

Departmental plans by spending authority

1.75 Tables 1.7 to 1.9 show the new plans broken down ^{into} ~~to show~~ spending by ^{the} 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~~ ^{accordingly} so that it 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 ^{but} and its role will be principally to spell out the details of individual departmental programmes. The individual chapters will be ~~bound separately~~ ^{bound separately}. 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

published in separate volumes.

Chart 1.1 General government expenditure as a percentage of GDP

*Delete frame
and draw
all charts in
the same style
as that
agreed for
Chapter II*

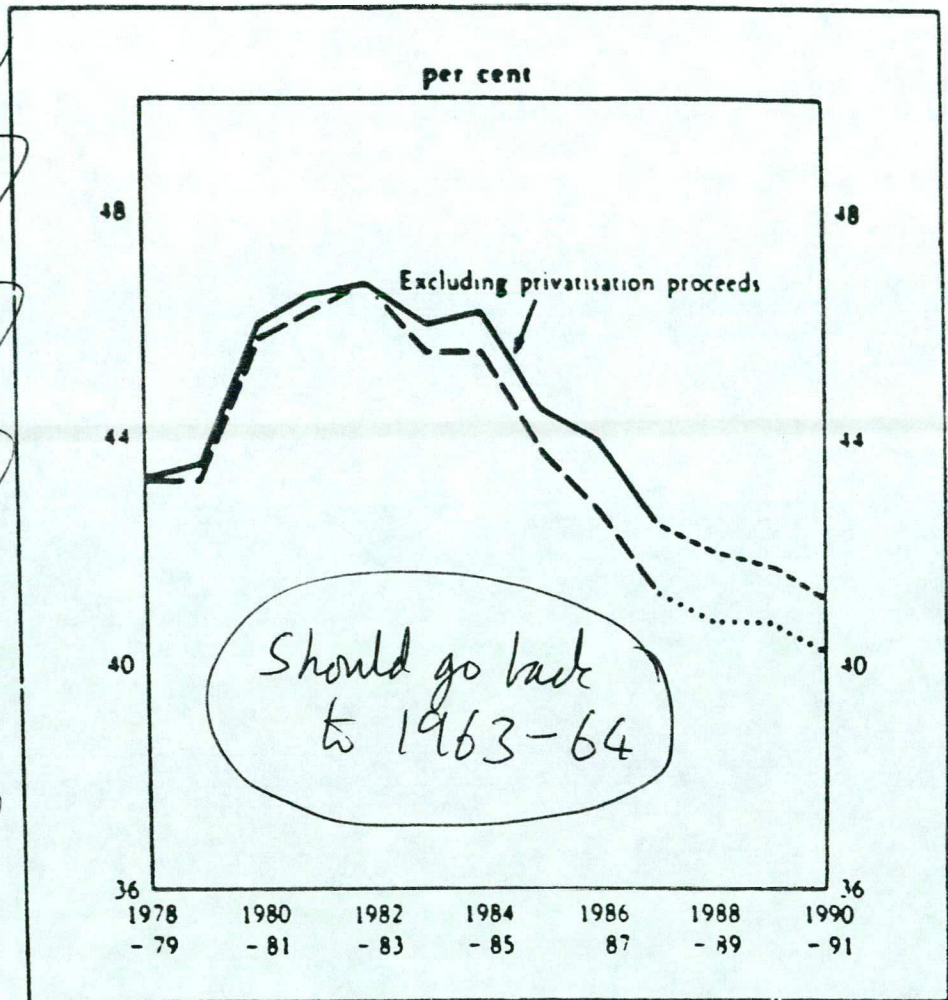
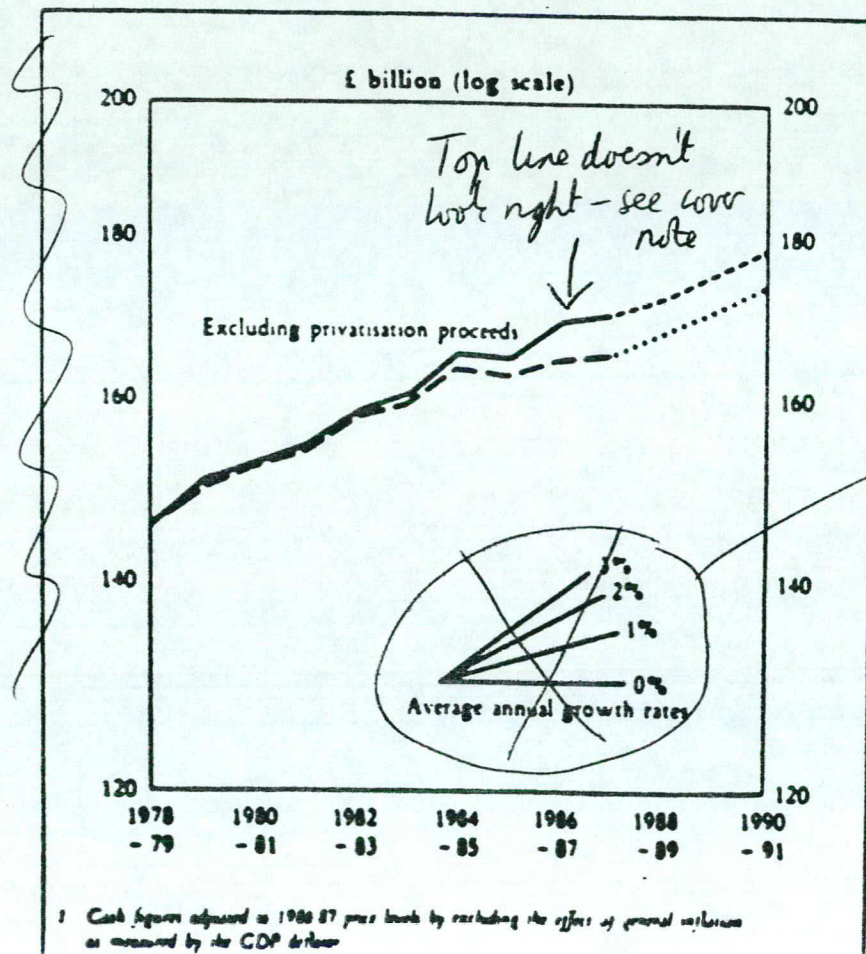


Chart 1.2 General government expenditure in real terms



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

SCORECARD

NO. 6 OF 8 COPIES



FROM: A P HUDSON
DATE: 28 October 1988

CHIEF SECRETARY

cc Mr Odling-Smee
(c/o Mr Pickford)
Mr Pickford
Miss J C Simpson

AUTUMN STATEMENT: ORAL STATEMENT: FIFTH DRAFT

... I attach the current draft, which the Chancellor will be working on over the weekend.

A handwritten signature in black ink, appearing to be "A P HUDSON".

A P HUDSON

**AUTUMN STATEMENT 1988: ORAL STATEMENT:
FIFTH DRAFT**

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 can therefore set out for the House this afternoon the public expenditure plans for the next three years, and the expected outturn for this year; proposals for national insurance contributions; 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, will be available from the Vote Office as soon as I have sat down. They will also appear in the printed Autumn Statement, which I propose to publish 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 £154½ billion, around £3¼ billion less than the plans in the last Public Expenditure White Paper. This means, in effect, that less than £½ billion of the Reserve of £3½ billion will be needed. We have

SECRET

seen not only higher receipts, from the privatisation programme and from local authorities and new towns, but also lower spending on programmes, reflecting, in particular, the sharp fall in unemployment.

6. Together with the strong growth of the economy this year, this means that the share of gross domestic product taken up by overall public spending, excluding privatisation proceeds, will be below 40 per cent - the first time this has happened for over 20 years [since 1966-67]. Since 1982-83, this ratio has fallen by 7 percentage points, the largest and longest sustained fall since the wartime economy was unwound.

7. Not so long ago, the share of national income spent by the State seemed set to rise inexorably. Now, it is on a firm downward trend.

8. On the receipts side, total Government revenues are likely to exceed the Budget forecast by £3½ billion. This is mainly the result of stronger economic growth. Both income tax and VAT have been particularly buoyant.

9. In the Budget, I set a Public Sector Debt Repayment - or PSDR - for 1988-89 of £3 billion, equivalent to around $\frac{3}{4}$ per cent of GDP. With higher Government revenues and lower than expected public expenditure, I now expect this year's PSDR to be £10 billion, equivalent to over 2 per cent of GDP.

10. This will be the second successive year of surplus, something that has not been achieved since records began in the early 1950s. Even without privatisation proceeds, the Budget is set to be in surplus, for only the second time in that period, by around £4 billion. No other major economy has such sound public finances.

[11. A debt repayment of the size now expected has clear implications for the operations of the authorities in the gilts market. My objective remains the same as it has been for some years now: to neutralise the impact of the public sector on the monetary system, and to do no more and no less. With a very large debt repayment, this means that we no longer have to make net sales of gilts; on the contrary, we need to buy them in - and on a substantial scale.

12. Last month, I said that there would be no more gilt auctions for the foreseeable future. I must now qualify that. The Bank of England will be holding an auction soon - but it will be a reverse auction, at which the Bank will invite tenders of stock for redemption. This will be a new weapon in the Bank's armoury of funding techniques. The Bank will be announcing the details in due course.]

Public expenditure plans 1989-90 to 1991-92

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

SECRET

14. In July, Cabinet set itself the objectives of keeping as close as possible to the existing planning totals, and of ensuring that public spending continued to fall as a share of national income. The plans that I am about to announce meet both of those objectives.

15. For 1989-90, there will be no change at all to the existing planning total of £167 billion. For 1990-91, the planning total will be £179½ billion, an increase of £3¼ billion on last year's plans. The planning total for 1991-92 will be set at £191½ billion.

16. These totals include the same prudent pattern of reserves as in last year's plans; that is £3½ billion for the first year, rising to £10½ billion in the third. They also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

17. In the decade before this Government came into office, public spending grew by nearly 3 per cent a year in real terms. In the nine years we have been in office, it has grown by just over 1½ per cent a year. In the succeeding four years, that is the current year and the three Survey years, it is planned to grow by an average of 1¼ per cent a year, well within the prospective growth of the economy as a whole. Public spending, even excluding privatisation proceeds, will thus continue to decline as a proportion of national income.

18. Within this framework, however, we are still able to increase spending on the Government's priority programmes. And our scope for doing so is further increased by the falling burden of debt interest, that results from the sharp reduction in Government borrowing, and now from the repayment of debt. [This means that whereas total spending is planned to grow by $1\frac{1}{4}$ per cent a year, spending on programmes is planned to grow by nearly double that, at $2\frac{1}{4}$ per cent a year.] [See A Turnbull minute.]

19. Thus, there will be substantial additional resources for the Government's most important priorities. The figures I am about to give all represent increases over the plans in the last Public Expenditure White Paper.

20. First, health. An extra $\text{£}1\frac{1}{2}$ billion is being provided for the National Health Service in England alone in 1989-90, and an extra $\text{£}1\frac{1}{2}$ billion in the following year. There will, of course, be corresponding increases in resources in Scotland, Wales, and Northern Ireland. On top of that, health authorities are expected to receive an extra $\text{£}100$ million a year from sales of surplus land. Continuing the rate of cost improvement savings achieved in recent years will produce an extra $\text{£}150$ million in 1989-90 and $\text{£}300$ million the following year. And the Government is accepting the recommendation of the Government Actuary, in a report published today,

that employers' superannuation contributions in England and Wales should be reduced, which will save the Health Service in England nearly £300 million a year.

21. In total, the increases for the Health Service in the UK will be over £2 billion in 1989-90 and over £2½ billion in the following year. These are by far the largest increases ever. They mean real growth between this year and next of 4½ per cent.

22. Second, roads. An extra £220 million is being provided next year for building and repairing motorways and trunk roads, and for strengthening bridges, with a further £250 million the following year.

23. Third, housing. Gross provision for public sector housing investment is being increased by over £400 million a year. But thanks to the success of the Government's right to buy policy, this is more than financed by extra receipts.

24. Fourth, law and order. An extra £240 million has been made available in 1989-90 and £370 million in 1990-91, principally for a further expansion in the prison building programme. This will provide a further 3,000 places by 1991-92. Provision for local authority spending on the police has also been increased by £240 million.

SECRET

25. Defence spending is to be increased by £150 million in 1989-90 and £600 million in 1990-91. These significant increases are designed to provide a firm framework for the next three years within which our defence programme can be planned with confidence.

26. On social security, falling unemployment has saved more than £1½ billion in each of the next three years. But substantial increases in planned spending on other benefits, particularly for the disabled, means that the social security programme will be broadly unchanged in 1989-90, and around £1.7 billion higher than previously planned in 1990-91.

27. On science and technology, we have altered the balance of public support within an increased total. In particular, provision for spending by the Department of Education and Science has been increased by £120 million a year, with the science budget up by 16 per cent in 1989-90. This reflects the importance the Government attaches to basic and strategic research.

28. The new plans contain an overall increase of £2½ billion in capital spending in 1989-90. This includes extra investment in hospitals, housing, prisons, and roads. There is provision for higher investment by the nationalised industries, including further anti-pollution measures by the Water Authorities. We have also provided fully for all the new

safety measures identified by London Regional Transport following the King's Cross disaster.

29. That the Government has been able to strengthen its priority programmes while holding to existing plans in the first year is, in large measure, a reflection of the success of its policies. The improved performance of the economy has eased pressures on a number of programmes, giving the Government more scope than ever before to shift resources where its priorities, rather than circumstances, dictate.

30. The details of these and other changes are provided in the material in the Vote Office. More details will be published in the printed Autumn Statement next week.

National Insurance Contributions

31. 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.

32. 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 £115 a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £165 a week.

33. Over recent years, we have steadily reduced the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. From 18 per cent in 1979, it now stands at 5 per cent. My RHF and I now propose to carry this policy forward to its logical conclusion and to abolish the Supplement. The necessary legislation will be introduced early in the new Session.

34. However, because 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 unchanged at 9 per cent for employees and 10.45 per cent for employers.

Industry Act Forecast

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

36. Growth this year looks to be turning out at $4\frac{1}{2}$ per cent. Investment has been particularly strong, growing twice as fast as consumption, with manufacturing investment showing the biggest rise of all, at 18 per cent. [Sir T Burns is working on comparisons of consumption and investment growth over longer periods.]

37. This performance is well ahead of that expected earlier this year. The continuing vigour of the British economy is testimony to the transformation that has taken place in the supply side of the economy.

38. The seven years to 1988 have seen a combination of strong and steady growth that has not been matched since the War. Only three such periods have seen stronger growth. Two others have seen steadier - though slower - growth. The combination of strong and steady growth is unique.

39. As a result, unemployment has been falling rapidly. Since the middle of 1986, it has fallen by very nearly one million - the fastest fall on record, and faster than in any other major country.

40. Inflation, as measured by the retail price index, is likely to be a little over 6 per cent in the fourth quarter of this year. Part of the rise in inflation reflects the impact of higher interest rates: these are essential to get inflation firmly back on a downward trend. Excluding mortgage interest payments, the RPI in the fourth quarter will be around 5 per cent.

41. Exports have continued to perform well, with manufactured exports up $7\frac{1}{2}$ per cent over the past year. The UK's volume share of world trade has remained steady after decades of decline and indeed has risen slightly

over the past two years. With investment booming, and consumer spending increasing fast, imports have risen rapidly, by 13 per cent in the year to the third quarter, and this has contributed to a substantial rise in the current account deficit. I now expect this to be £13 billion this year, equivalent to $2\frac{3}{4}$ per cent of GDP.

42. Looking ahead to 1989, I expect domestic demand to grow at 3 per cent next year, about half this year's rate. Consumer spending should rise by $3\frac{1}{2}$ per cent, though slowing sharply in the course of the year. Business investment, however, is set to continue to grow strongly at 7 per cent.

43. The economy as a whole is forecast to grow by 3 per cent next year, with the non-oil economy, which is particularly important for employment prospects, up $3\frac{1}{2}$ per cent. Unemployment should continue to fall.

44. While there is likely to be some further rise in inflation between now and the first half of next year, I expect inflation to be firmly on a downward trend in the second half, reaching 5 per cent by the fourth quarter. The defeat of inflation will remain the top priority in economic policy, as it has since 1979.

45. The current account deficit is likely to be around £11 billion in 1989, though it should be on a downward trend by the end of the year.

46. Thus after two years of rapid expansion, growth in 1989 will be back in line with the trend of recent years, with growth slowing through the year. This slowdown is entirely desirable, and indeed necessary, given the cardinal importance of keeping on top of inflation. And the lasting benefits of supply side improvements mean that the slowdown nonetheless brings a rate of growth achieved only twice in the whole of the 1970s.

Peroration

47. Mr Speaker, the prospect for next year is for further growth, with inflation coming down. The public finances are in substantial surplus, with public spending increasing on priorities, while falling as a share of GDP.

48. That excellent prospect is the result of the policies this Government has pursued for over nine years now. And those are the policies we shall stick to.



PH

Ch

now behind

Cabinet paper.

John Mackeslan will be putting up a new draft with the changes marked below.

Carys Evans will ring you at Dorneywood to pass on the PM's comments and collect any you have.

[Red handwritten scribble]

[Blue handwritten initials]

[Red handwritten signature]



Ch

Sorry, I gave you
copy to CST & he
mangled it!

AA

SECRET AND PERSONAL

SCORECARD

COPY NO: 4 OF: 24

FROM: J MACAUSLAN

DATE: 28 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 Tyrrie

BRIEFING FOR PUBLIC EXPENDITURE CABINET

I attach:

you are doing your own

(a) a draft of a speaking note for the Chancellor to use at Cabinet. This has only been marginally changed from the version I submitted on Wednesday. I have attached to it the summary tables for the IAF for this Autumn Statement, and the forecast from the FSBR this year; I also attach a sheet which the Chancellor may want to distribute at the Cabinet.

*final version
now substituted*

(b) a draft of the speaking note for you, again only marginally changed, since you mentioned that you were working on it.

(c) the public expenditure briefing for the Cabinet. The first sheet in the briefing package is an index.

3. We will make any amendments, or give you any additional material, on Monday.

JM

J MACAUSLAN

MACAUSLAN
TO
CST
BRIEFING
31/10

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.

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 £3½ 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) 39½ per cent (ex pp: cf 42 per cent in PEWP and 41½ per cent in FSBR). Three Survey years: 39½ per cent; 39 per cent; 38½ 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 1½ 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: abolition of Treasury supplement.

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 13: Economic prospects: summary

Percentage changes on previous year unless otherwise stated

	<u>1987</u>	<u>Forecast</u>		<u>Average errors from past¹ forecasts</u>
		<u>1988</u>	<u>1989</u>	
GDP and domestic demand at constant prices				
Domestic demand	4½	6	3	1
of which:				
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	1¾
GDP deflator at market prices (financial year)	5½	6½	5	1¾
Money GDP at market prices (financial year) £ billion	10	11	8	1¾
	424	471	508	
PSDR (financial year) £ billion	3½	10		3
as a percent of GDP	¾	2		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.

Table 3.12 The prospects: summary

	Forecast		Average errors from past forecasts ¹
	1986 to 1987	1987 to 1988	
	per cent changes		percentage points
Output and expenditure at constant 1980 prices			
Domestic demand	4	4	1
of which:			
consumers' expenditure	5	4	1
general government consumption	1	1	1
fixed investment	3½	6½	2½
change in stockbuilding (as per cent of level of GDP)	0	0	½
Exports of goods and services	5½	3	2
Imports of goods and services	7½	6½	2½
Gross domestic product: total	4½	3	¾
manufacturing	5½	5	1½
Inflation			
Retail prices index	per cent changes		
1987 Q4 to 1988 Q4	4		1
1988 Q2 to 1989 Q2	4		2
GDP deflator at market prices	per cent changes on a year earlier		
Financial year 1987-88	5		1
Financial year 1988-89	4½		1
Money GDP at market prices	£ billion ²		
Financial year 1987-88	424 (9¾)		1¼
Financial year 1988-89	456 (7½)		1½
Balance of payments current account	£ billion		
1988	-4		3
1989 first half (at an annual rate)	-4		4½
PSBR	£ billion ³		
Financial year 1987-88	-3 (-¾)		1 (¼)
Financial year 1988-89	-3 (-¾)		4 (1)

¹ The errors relate to the average differences (on either side of the central figure) between FSBR forecasts and outturn over the last ten years.

² Per cent change on previous financial year in brackets; average error shown relates to the forecast of the percentage change.

³ Per cent of GDP at market prices shown in brackets.

TABLE 1: SURVEY OUTCOME

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. Baseline			
(a) Departmental programmes	165.1	170.6	174.8*
<u>less</u> (b) Privatisation proceeds	- 5.0	- 5.0	- 5.0
<u>plus</u> (c) Reserves	+7.0	+10.5	-
<u>equals</u> (d) Planning Total	<u>167.1</u>	<u>176.1</u>	<u>-</u>
2. Additions to programmes	3.5	6.8	11.3
<u>less</u> Scope to draw down Reserve	<u>-3.5</u>	<u>-3.5</u>	
<u>equals</u> Increase in Planning Total	<u>0.0</u>	<u>3.3</u>	
3. Reserve for new final year			10.5
4. New planning totals (1+2+3)	167.1	179.4	191.6
Memo: New Reserves	3.5	7.0	10.5

* 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	17.2	16.2	15.6
Add national accounts adjustments	8.2	9.6	9.4	9.4	8.8
<u>equals</u> General govt expenditure (excl priv proceeds)	<u>176.7</u>	<u>186.9</u>	<u>198.7</u>	<u>210.0</u>	<u>221.0</u>
Planning total % change real terms	- 0.6	- 0.8	3.6	3.8	3.7
GGE (excl priv proceeds) % change real terms	- 0.6	- 0.4	1.3	2.1	2.2
GGE (excl priv proceeds) % of GDP	41½	39¾	39¾	39	38½
cf last PEWP	(42½)	(42)	(41¾)	(41¼)	(-)

PHJ

SCORECARD

NO. 12 OF 27 COPIES

Mr Hudson cc Miss Peinn



FROM: A P HUDSON
DATE: 31 October 1988

PI see suggested change to para 22. As it stands, it implies an actual reduction in 1989-90 relative to 1988-89.

PS/CHIEF SECRETARY

The reduction is only a reduction compared with previous plans.

- cc PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Odling-Smee
- Mr Luce
- ~~Mr [redacted]~~
- Mr Turnbull
- Mr MacAuslan
- Mr Gieve
- Mr Pickford
- Miss J C Simpson
- Mrs Chaplin
- Mr Tyrie
- Mr Call
- Mr Footman (Bank, by fax)

cc PS/CST

Jm.

31/10.

Mr Hudson

Mr Turnbull

Mr McIntyre

Mr Saunders

Mr AM White

self

We spoke. On health, in view of your feeling that the territories must be mentioned sooner, I ~~have~~ suggested the amendments shown (and confirmed "by fax" in para 17). * On social security, content.

MPD 31.10

AUTUMN STATEMENT: ORAL STATEMENT:

CHANCELLOR'S DRAFT, FIRST HALF

- * Ps. 1 ~~to~~ suggests dropping the last phrase of para 17 because of I attach the ^{the note that, in context, it wd be taken as referring} first half of the Chancellor's own draft of the Oral Statement. to the 4 1/2%, & tho' I think it's still probably true I can't guarantee it. You said you'd put
- 2. Please could I have comments as soon as humanly possible. We cannot guarantee to take in comments received after 6.00 pm.

2 options to the CX: drop that phrase or dropping the ref to 4 1/2%.

- cc Mr Monck para 23 24
- Mr Robson para 24
- Mr Jones para 16, 17, 22
- Mr Cox para 20
- Mr Richards para 5, 6.
- Mr Edwards

Comments direct to Mr Hudson
Copies to me please

APH
A P HUDSON

AP
31/10

15/31/10
795

16. First, health. An extra £1½ billion is being provided for the National Health Service in England in 1989-90, and an extra £1½ billion in the following year. There will ^[of course,] be corresponding increases in Scotland, Wales, and Northern Ireland. On top of that, health authorities are expected to receive an extra £100 million a year from sales of surplus land. Continuing the rate of cost improvement savings achieved in recent years will produce an extra £150 million in 1989-90 and an extra £300 million the following year. In addition, the Government is accepting the recommendation of the Government Actuary, in a report published today, that NHS employers' superannuation contributions in England and Wales should be reduced, which will save the Health Service ⁱⁿ England ^{~ further} alone almost £300 million a year.

17. In total, the increases for the Health Service in the UK as a whole will be over £2 billion in 1989-90, which represents a real increase of 4½ per cent on this year's outturn, and over £2½ billion in the following year. These are [by far] the largest increases the Health Service has ever received, not just in cash terms, but in real terms, too.

22. So far as the massive social security budget is concerned, lower unemployment has saved more than £1½ billion in both 1989-90 and 1990-91. But substantial increases in planned spending on other benefits, particularly for the disabled, mean that the social security programme will be only marginally reduced in 1989-90, ^{compared with previous plans} and some £1.7 billion higher ^{in 1990-91.} ~~than previously planned~~ ~~in 1990-91.~~



Ch

Para 14

AA
WT spoke. I hear
made a small
am. Jun; but
basically
disagree
WR

CST appealed to me on this.
For points I said I'd pass on

- ① doesn't want to get 3%
inflation by us
- ② use of 87-88 base
consistent with last year's
presentation
- ③ AS last year (par 2.03)
showed G-E slowing from
2 1/4% pa over previous 4 yrs to
1 3/4% pa over next 4 yrs. So
we are doing worse over next
3 years [but not over 4 yr period]
- ④ 1988-89 uncertain base -
shortfall could be ~~worse~~ larger
or growth rates higher.

disagree
WR
get my
also
think
no
MI

AA

MASTER

SCORECARD

NO. 23 OF 27 COPIES



FROM: A P HUDSON

DATE: 31 October 1988

PS/CHIEF SECRETARY

- cc PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Odling-Smee
- Mr Luce
- ~~Mr [redacted]~~
- Mr Turnbull
- Mr MacAuslan
- Mr Gieve
- Mr Pickford
- Miss J C Simpson
- Mrs Chaplin
- Mr Tyrie
- Mr Call
- Mr Footman (Bank, by fax)

AUTUMN STATEMENT: ORAL STATEMENT:
CHANCELLOR'S DRAFT, FIRST HALF

... I attach the first half of the Chancellor's own draft of the Oral Statement.

2. Please could I have comments as soon as humanly possible. We cannot guarantee to take in comments received after 6.00 pm.

A P HUDSON

**AUTUMN STATEMENT 1988: ORAL STATEMENT:
CHANCELLOR'S DRAFT**

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 can therefore set out for the House this afternoon the public expenditure plans for the next three years, and the expected outturn for this year; proposals for national insurance contributions; 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, 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 expenditure

4. I turn first to public expenditure.

5. For the current financial year, 1988-89, the public expenditure planning total now looks likely to amount to ^{around} ~~£15½~~ ^{some} £3½ billion, or some £3½ billion less than was allowed for in the last Public Expenditure White Paper. In other words, only around £½ billion of the £3½ billion reserve I provided for is in fact likely to be needed.

*B. Dyer thought that
"will be" might be
taken as pre-empting
the House's decision to
publish it. (Doesn't
worry me.)*

*M. Richardson X
A. Humbold X*

MPW

M. Richardson
[£1.1bn saved on
WB; £200m extra
on more claims.]

AMBER only £200m out 15

stet

6. The main reasons for this ^{understand} shortfall are an extra £1 billion in privatisation proceeds, ^{a reduction in} benefit payments ^{social security spending} down by almost £1 billion as a direct result of a sharper ^{the} than expected fall in unemployment, and some £1 billion of ^{a saving of} ~~extra housing~~ receipts ^{largely due to} under the right-to-buy programme. Taken together with the strong growth in the economy this year, and the containment of debt interest now that the Budget is in surplus, this means that total public spending this year, even excluding privatisation proceeds, will be less than 40 per cent of national income - the first time this has happened for over 20 years.

largely from local authorities also towns, largely from the 7

7. Not so long ago, the share of national income spent by the State seemed to rise inexorably. Over the past six years, that trend has been decisively reversed.

8. Since 1982-83, public expenditure, excluding privatisation proceeds, expressed as a share of national income has fallen by 7 percentage points - the largest and longest sustained fall since the wartime economy was unwound.

9. Over the whole decade since this Government first took office, from 1978-79 to 1988-89, public expenditure has grown by under 1 per cent a year in real terms. This is exactly half the rate at which it grew over the whole of the immediately preceding decade.

10. Looking ahead, Cabinet agreed in July that public spending over the next three years should keep as close as possible to the existing planning totals, and should continue to fall as a share of national income. The plans I am about to announce meet both those objectives.

11. For 1989-90, the planning total published in the last Public Expenditure White Paper was £167 billion. It will remain at £167 billion. This important outcome has been made possible, despite the many claims for increased public spending, by a continuation of two of the factors that have contributed to this year's shortfall: benefit savings from lower unemployment and increased receipts from council house sales.

reordering our
priorities,
assisted by

PEM
12. For 1990-91, however, ^{though} ~~while~~ these two factors ^{will} persist, the planning total has been set at £179½ billion, some £3¼ billion more than the previously published figure. For 1991-92, the planning total has been set at £191½ billion.

13. These totals include the same level of reserves as in last year's plans; that is to say £3½ billion in the first year, £7 billion in the second year, and £10½ billion in the third. They also incorporate an unchanged estimate of privatisation proceeds of £5 billion a year.

only because of the

14. Over the three survey years as a whole, the ~~new~~ planning totals imply a real growth in spending on programmes of ^{will be} over 3 per cent a year. ~~But thanks to a~~ fall in ^{the} burden of debt interest ~~as a result of~~ the dramatic improvement in the Government's finances from Budget deficit to Budget surplus. ^{As a result,} overall public spending, excluding privatisation proceeds, will rise by less than 2 per cent a year, well within the prospective growth of the economy as a whole. In other words, total public spending, excluding privatisation proceeds, will continue to decline as a proportion of national income.

This can be afforded brought about by

J. Anson would restructure:
- overall PX up by 3/4% a year;
- but thanks to fall in debt interest, can do more on programmes.
(S7 agreed, though I have explained your view is firm
without quoting 3% figure)

15. But, at the same time, substantial additional funds have been made available for the Government's most important public expenditure priorities. The figures I am about to give all represent increases over the plans in the last Public Expenditure White Paper.

16. First, health. An extra £1½ billion is being provided for the National Health Service in England in 1989-90, and an extra £1½ billion in the following year. There will, ~~of course,~~ be corresponding increases in Scotland, Wales, and Northern Ireland. On top of that, health authorities are expected to receive an extra £100 million a year from sales of surplus land. Continuing the rate of cost improvement savings achieved in recent years will produce an extra £150 million in 1989-90 and an extra £300 million the following year. In addition, the Government is accepting the recommendation

M. Pearson

of the Government Actuary, in a report published today, that NHS employers' superannuation contributions in England and Wales should be reduced, which will save the Health Service ^{a further} ~~[in England alone almost]~~ £300 million a year.

M. Pearson ✓

A. Turnbull ✗

See my notes.

17. In total, the increases ^{in resources} for the Health Service in the UK as a whole will be over £2 billion in 1989-90, which represents a real increase of 4½ per cent on this year's outturn, and over £2½ billion in the following ^{1990-91.} year.

These are (by far) the largest increases the Health Service has ever received, not just in cash terms, but in real terms, too.

Company next year
with this year, the quantity
As a result, the NHS should
have 4½ per cent more resources, in real terms, comparing next year with this year.
£m real resources for the NHS should amount to some 4½ per cent.

18. Second, roads. An extra £220 million is being provided next year for building and repairing motorways and trunk roads, and for strengthening bridges, with a further £250 million the following year.

xx
M. Pearson cannot give cast-iron guarantee that this is true of comparison of outturns as well as plans, though she is pretty sure. Options: - take a chance - delete list in []

19. Third, housing. Gross provision for public sector housing investment is being increased by ^{around £440} ~~over~~ million in 1989-90 and ^{£340 million the following year,} ~~£400 million a year.~~ But thanks to the success of the Government's right to buy policy, this is more than financed by extra receipts.

A. Edwards ✓

20. Fourth, law and order. An extra £290 million has been made available in 1989-90 and £430 million in 1990-91, principally for a further expansion in the prison building programme. This will provide a further

3,000 places by 1991-92. Provision for local authority spending on the police has been increased by £240 million.

21. Defence spending is to be increased by £150 million in 1989-90 and £600 million in 1990-91. These significant increases are designed to provide a firm framework for the next three years within which our defence programme can be planned with confidence.

22. So far as the massive social security budget is concerned, lower unemployment has saved more than £1½ billion in both 1989-90 and 1990-91. But substantial increases in planned spending on other benefits, particularly for the disabled, mean that the social security programme will be ^{slightly} only marginally reduced in 1989-90, and some £1.7 billion higher than previously planned in 1990-91.

~~P. McIntyre~~
A. Turnbull
compared with previous plans

23. On science and technology, we have altered the balance of public support within an increased total. In particular, provision for spending by the Department of Education and Science has been increased by £120 million a year, with the science budget up by ^{16%} ~~11%~~ per cent ~~in real terms~~ in 1989-90. This reflects the importance the Government attaches to basic and strategic research.

N. Monck would prefer the cash figure, it guards against problems of inflation for scientists is higher than expected.

24. The new plans imply an overall increase of £2½ billion in public sector capital spending in 1989-90.

A. Turnbull -
to avoid taking credit for £¼ bn VAT.

This includes extra investment in hospitals, housing, prisons, and roads. There is provision for higher investment by the nationalised industries, including further anti-pollution ^{investment} measures by the Water Authorities. ~~[We have also provided in full for all the new safety measures identified by London Regional Transport following the King's Cross disaster.]~~

25. That the Government has been able to strengthen its priority programmes within an unchanged planning total for 1989-90 is, in large measure, a reflection of the success of its policies. The improved performance of the economy has eased pressures on a number of programmes, giving the Government more scope than ever before to shift resources where its own priorities, rather than circumstances, dictate.

26. The details of these and other changes are provided in the material in the Vote Office. More details will be published in the printed Autumn Statement next week.

A-Turnbull

DTp insist on omitting this, as the price for getting the press notice right. ~~But~~ OK to use if you may, of course, need it if pressed.)

MASTER

SCORECARD

NO. 23 OF 25 COPIES



FROM: A P HUDSON

DATE: 31 October 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns

Handwritten red notes:
~~Handwritten scribble~~
maki
m.
for

Mr Anson
Mr Monck
Mr Phillips
Mr Odling-Smee (Mr Sedgwick)*
Mr Luce
Mr Turnbull
Mr MacAuslan
Mr Gieve
Mr Pickford
Miss J C Simpson
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Footman (Bank)
✓ Mr Gray (No. 10)*

AUTUMN STATEMENT: ORAL STATEMENT:
CHANCELLOR'S DRAFT, SECOND HALF

* with first half

... I attach the second half of the Chancellor's own draft of the Oral Statement.

2. Please could I have comments as soon as humanly possible. We cannot guarantee to take in comments received after ~~7.30~~ pm 7.30 pm.

C.
One general comment of mine. *N/A!*

Handwritten signature: APH

A P HUDSON

27. I turn next to National Insurance Contributions.

28. 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.

29. 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 upper limits for the 5 per cent and 7 per cent reduced rate bands will also be increased, to £75 a week and £115 a week respectively. The upper limit for the 9 per cent rate for employers will be raised to £165 a week.

30. Over recent years, we have steadily reduced the Treasury Supplement, the taxpayer's contribution to the National Insurance Fund. From 18 per cent in 1979, it now stands at 5 per cent. My RHF and I now propose to carry this policy to its logical conclusion and to abolish the Supplement altogether. The necessary legislation will be introduced early in the new Session.

31. However, because of the healthy state of the National Insurance Fund, this decision will not require

any increase in contribution rates. Thus, the main Class I contribution rates will remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

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

33. Growth this year looks to be turning out at $4\frac{1}{2}$ per cent, compared with the 3 per cent growth I forecast at the time of the Budget. Investment is particularly strong, growing twice as fast as consumption, with manufacturing investment expected to show the biggest rise of all, at 18 per cent. ~~Indeed~~, it is striking that ^{total} investment has ^{almost, nearly} grown twice as fast as ^{total} consumption over the whole of the past five years. ~~B~~

34. The continuing vigour of the British economy is testimony to the transformation that has taken place in the supply side of the economy; a transformation which has enabled the seven years to 1988 to record a combination of strong and steady growth unmatched since the War.

35. As a result, unemployment has been falling rapidly. Since the middle of 1986, it has fallen by very nearly one million - the ^{largest} ~~fastest~~ fall on record, and faster ^{in Britain than UK} than in any other major country.

36. Inflation, as measured by the retail price index, is likely to be a little over 6 per cent in the fourth

Redrafting
is Terry's
→
[PNS unhappy, because
draws attention to how
low ^{increase} Govt. consumption
has been.
JOS would at least
add "total" the
second time.
S. Pickford would say
"total" both times.]

SJP:
Over the past year,
the unemployment ~~rate~~
has fallen

quarter of this year. Part of the rise in recorded inflation reflects the impact on mortgage payments of the higher interest rates needed to tighten monetary policy and thus get inflation firmly back on a downward trend. Excluding mortgage interest payments, the RPI in the fourth quarter is likely to be around 5 per cent, compared with the 4 per cent ^(not in the RPI) forecast at the time of the Budget.

~~RPI, 4 percent~~
~~was 89.02~~
SJP: 4 percent
was total RPI - we
didn't publish a
figure as - MIPs.

37. Exports have continued to perform well, with manufactured exports up 7½ per cent over the past year. Over the past seven years, the UK's share of world trade in manufactured goods has remained steady after decades of decline and indeed has risen slightly over the past two years. However, with investment booming, and consumer spending increasing fast, ^{total} imports have grown even faster than exports, rising by 13 per cent in the year to the third quarter. This has led to ^a substantially greater current account deficit than I forecast at the time of the Budget. For 1988 as a whole, this now looks like turning out at some £13 billion, equivalent to 2¾ per cent of GDP.

x
PNS: not true, figures
have been revised
since last week.

SJP N.B. 13 percent
is total imports,
7½% in manuf. exports.

38. The stronger than expected economic growth this year means that total tax revenues are likely to exceed the Budget forecast by £3½ billion. Both income tax and VAT have been particularly buoyant.

39. In the Budget, I set a Public Sector Debt Repayment - or PSDR - for 1988-89 of £3 billion, equivalent to around $\frac{1}{4}$ per cent of GDP. With higher than expected Government revenues and lower than expected public expenditure, this year's PSDR now looks likely to turn out at some £10 billion, equivalent to over 2 per cent of GDP.

40. This will be the second successive year of debt repayment, something that has not been achieved since records began in the early 1950s. Moreover, this year, the Budget would still be in surplus, by some £4 billion, even if there were no privatisation proceeds at all. No other major economy has such sound public finances.

41. Looking ahead to 1989, the economy is forecast to grow by a further 3 per cent, with domestic demand also up by 3 per cent. Once again, investment is expected to grow considerably faster than consumption, and once again unemployment is expected to fall.

42. The slower growth forecast for 1989 inevitably implies a marked deceleration during the course of the year, particularly so far as domestic demand is concerned. Thus, comparing the second half of next year with the second half for this year, overall growth is forecast at $2\frac{1}{2}$ per cent, and growth in domestic demand at only $1\frac{1}{2}$ per cent.

43. The current account deficit is likely to ~~remain high, at~~ ^{slightly, to} some £11 billion, or 2½ per cent of GDP. ~~but is forecast to be on a [pronounced] downward trend by the end of the year.~~ ^{fall only}

PNS: Figures do not support.
TB wd also delete.

Q1	-2.3 bn
2	3.4
3	3.2
4	2.3
1990 1	2.1
2	2.8
3	2.5
4	2.3

(Forecasts as erratic as figures!)

44. ~~And~~ inflation, while it will inevitably continue to edge up for some months to come, is forecast to peak at some point in the middle of next year before falling back again to 5 per cent by the fourth quarter.

45. In short, after two years of unexpectedly rapid expansion, growth next year is forecast to return to a sustainable level, and one which compares well with the economic performance of the '70s; while inflation will resume its downward path. The public finances are in substantial surplus and will remain so, with public spending on priority programmes continuing to increase, while overall public spending continues to fall as a share of GDP, to a level ^{in 1991-92} not seen for ^{over 20 years.} a quarter of a century.

J. Anson points out that, by 1991-92, we shall not have passed any more milestones - we're already ~~below~~ the lowest since 1966-67.

P. Gray thinks "satisfactory" sounds like damning with faint praise. Could begin simply "The prospect that..." or "This prospect is yet..."

46. The ~~satisfactory~~ prospect that lies before us is yet further testimony to the success of the policies we have been pursuing these past 9½ years, ^{and w'll continue to follow,} and to the economic transformation those policies have wrought.

Will answer: but 1991-92 is 25 yrs (¼ century) on from 1966-67.

Page

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FROM: J MACAUSLAN
DATE: 31 OCTOBER 1988

CHANCELLOR OF THE EXCHEQUER +1

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

a
Some comments marked

*and some
m.m.*

AA

PRINTED AUTUMN STATEMENT: CHAPTER 1

I attach the printers' proof of Chapter 1 of the printed Autumn Statement - the public expenditure chapter. Some amendments have been marked in manuscript.

2. Please may I have any comments by noon on Wednesday 2 November. The proofs must be returned to the printers that afternoon.

jm

J MACAUSLAN

1 Public expenditure plans

Main points

1.01 In the current year, and excluding privatisation proceeds, government spending as a proportion of national income is expected to ~~fall~~ below 40 per cent for the first time in over 20 years. The proportion will have fallen by some 7 percentage points since 1982-83. Over the next three years, it is expected to continue to fall ~~slightly~~.

Further / or stop after "fall"

bt

1.02 In real terms, the plans for the next three years allow growth in ~~Government spending excluding privatisation proceeds averaging about 1 1/4 per cent from 1987-88 to 1991-92. This maintains the rate of growth projected in the last public expenditure White Paper, Cm 288.~~

Spending on programmes averaging 3 1/4 per cent a year. This can be afforded because of the fall in the burden of debt interest brought about by the improvement in the Government's finances from Budget surplus. As a result, overall public spending, excluding privatisation proceeds will rise by only 1/4.

1.03 The public expenditure planning total for 1989-90 is unchanged from previous plans at £167.1 billion. The planning total for 1990-91 has been set at £179.4 billion, an increase of £3.3 billion on previous plans; and that for 1991-92 at £191.6 billion. As last year, these totals include Reserves of £3.5 billion, £7 billion and £10.5 billion respectively. *They also include an unchanged estimate of privatisation proceeds, at £5 billion a year.*

1.04 Compared with the plans published in Cm 288, further resources have been provided to meet the Government's priorities, including substantial additional sums for 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.

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

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 ensuring that government spending declines as a proportion of national income. *total spending remains under control*

total

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.

1 3/4 per cent a year, well within the prospective growth of the economy.

As well as the savings on debt interest,

Aims and objectives

1.08 Within the framework of the Medium Term Financial Strategy, the Government's overall objective for public expenditure is to hold its rate of growth below the growth of the economy as a whole, thus reducing public spending as a proportion of national income, while constantly improving value for money. Reducing public expenditure as a proportion of national income leaves ~~room~~ for reducing taxation when it is prudent to do so while maintaining a strong fiscal position.

1.09 This objective for public spending is expressed in terms of general government expenditure (GGE) as a proportion of 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 in the formulation of macro-economic policy and thus in the MTFS.

1.10 For the purposes of planning and control, however, 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.

1.11 The planning total is built up from the control totals set for individual departmental programmes, together with an unallocated Reserve. It differs from GGE in a number of respects, of which ~~far and away~~ the most important is the exclusion of 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.

scope / 2/

this / total /

£ /
£ /

Chart 1.1 General government expenditure as a percentage of GDP

Table 1.1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP (£ billion)	General government expenditure (excluding privatisation proceeds) as a percentage of GDP
	Cash (£ billion)	Real terms ⁽¹⁾ (£ billion)		
1963-64	11.3	87.9	31.4	36¼
1964-65	12.3	91.7	34.1	36
1965-66	13.6	96.8	36.6	37¼
1966-67	15.1	102.8	38.8	38¾
1967-68	17.5	115.5	41.2	42¼
1968-69	18.2	115.2	44.6	41
1969-70	19.3	115.6	48.0	40¼
1970-71	21.6	119.8	53.1	40¾
1971-72	24.4	123.3	59.2	41
1972-73	27.6	129.9	67.5	41
1973-74	32.0	140.5	74.8	42¾
1974-75	42.9	157.6	89.1	48¼
1975-76	53.8	157.5	110.8	48½
1976-77	59.6	154.1	129.4	46
1977-78	64.4	146.3	150.8	42¾
1978-79	75.0	153.8	173.1	43¼
1979-80	90.3	158.6	207.6	43½
1980-81	109.0	161.5	236.6	46
1981-82	121.0	163.3	259.9	46½
1982-83	133.1	167.6	284.6	46¾
1983-84	141.6	170.5	308.6	45¾
1984-85	152.8	175.2	330.5	46¼
1985-86	160.9	175.0	361.1	44½
1986-87	168.9	177.8	385.7	43¾
1987-88	176.7	176.7	424.5	41½
1988-89	186.9	175.9	471	39¾
1989-90	198.7	178.1	508	39¼
1990-91	210.0	181.8	539	39
1991-92	221.0	185.8	569	38¾

¹ Cash figures adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by some 6¼ per cent in 1988-89, and by 5, 3½ and 3 per cent respectively in the years 1989-90 to 1991-92.

This goes back a bit further than table 2.1 & 2.2 last year (attached) but loses GGE ratios (no great loss); GGE in cash & real terms (ditto) and planning total in cash & real terms - more of a loss, but if we included that we might also want to include planning total ex PP, for consistency with the presentation in the oral PS. So this table OK?

Take OK. But since spreads @ A, B & C are presumably attached to the Govts, there should be a spread @ D.

Trends in public spending

1.12 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 and Table 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, the lowest level since 1966-67, and is expected to decline further to just under 39 per cent in 1991-92.

In order to discuss the future for the past, close this gap, but point to 3 survey years (not 1988-89) in italics.

fallen sharply
should

In total, after allowing for sales of surplus land, cost improvement savings and lower NHS employers' superannuation contributions, the increase for the Health Service as a whole will be over £2 billion.

The new plans

1.15 Table 1.2 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.

The Government's /

0 /

1.16 There have been substantial increases in provision for priority programmes. Within the unchanged planning total for 1989-90, £1¼ billion extra has been allocated to the National Health Service in England, £290 million to law and order and £228 million to roads in England. Appropriate additions have been made to the block budgets of Scotland, Wales and Northern Ireland. The plans provide for major investment programmes for those nationalised industries remaining in the public sector; but also reflect, in 1991-92 in particular, 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.

disappearance from the public expenditure figures /

1.17 It is possible to accommodate these increases and to maintain a declining trend for public expenditure as a proportion of national income, because of savings elsewhere. These savings stem, in particular, from the improved performance of the economy, and continuing improvements in value for money. Falling unemployment reduces the rate of growth of social security expenditure, and makes savings possible on employment and training programmes. In addition, the 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 is now repaying the national debt and thus reducing the burden of debt interest.

Progress in reform of the Common Agricultural Policy of the European Community is contributing to reductions in provision for agricultural market support. /

Defence

1.18 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 £150 million in 1989-90 to some £20.1 billion, and will rise to about £22.1 billion in 1991-92. This budget is expected to meet the UK's defence commitments over the next three years.

1.19 The UK's defence capability 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.

1.20 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. This has led to a reduction of over 13,000 posts since 1979 and an annual saving of some £50 million. Service manpower resources continue to be switched from support to front-line tasks. Further improvements in efficiency are planned to achieve specified targets over the three years to 1990-91.

Table 1.2 Public expenditure¹

	£ million		
	Latest estimates of outturn		
	1987-88 outturn	1988-89 estimated outturn	Change 1987-88 to 1988-89
Ministry of Defence	18 853	19 300	450
FCO—Diplomatic wing	660	750	90
FCO—Overseas Development Administration	1 303	1 480	180
European Communities	1 664	950	- 710
Ministry of Agriculture, Fisheries and Food ³	1 976	1 860	- 110
Department of Trade and Industry	728	1 700	980
Export Credits Guarantee Department	151	110	- 40
Department of Energy	2278	220	- 10
Department of Employment ⁴	3 915	4 120	210
Department of Transport	4 586	4 810	230
DOE—Housing	2 697	2 050	- 640
DOE—Other environmental services ⁵	3 640	4 380	740
Home Office	5 702	6 280	580
Legal departments ⁶	793	960	160
Department of Education and Science	17 081	18 440	1 360
Office of Arts and Libraries	889	980	90
Department of Health	19 716	21 740	2 020
Department of Social Security ⁴	46 249	47 600	1 400
Scotland	8 087	8 720	630
Wales	3 330	3 600	270
Northern Ireland	4 926	5 160	240
Chancellor's departments	3 432	3 670	240
Other departments	296	360	70
Reserve	0	0	0
Privatisation proceeds	- 5 160	- 6 000	- 840
Adjustment ⁷	0	330	330
Planning total	145 740	153 600	7 800
General government gross debt interest	17 526	17 700	200
Other national accounts adjustments	8 230	9 600	1 400
General government expenditure	171 496	180 900	9 400

¹ The rounding and other conventions used in this table and Tables 1.6, 1.7 and 1.8 are as follows: plan figures are rounded to the nearest £10 million, except for social security (in this table and Table 1.6), 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. £500 million. 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 changes and sums of the rounded figures. In this and Tables 1.6, 1.7 and 1.8 some figures may be subject to detailed technical amendment before the publication of the 1989 public expenditure White Paper.

1 Public expenditure plans

New plans			Changes from January 1988 White Paper ²			
1989-90 plans	1990-91 plans	1991-92 plans	1988-89	1989-90	1990-91	
20 120	21 180	22 090	80	150	600	Ministry of Defence
770	810	850	30	30	50	FCO—Diplomatic wing
1 540	1 630	1 690	50	30	80	FCO—Overseas Development Administration
1 970	1 950	1 580	150	500	630	European Communities
1 950	2 160	2 350	-350	-380	-340	Ministry of Agriculture, Fisheries and Food ³
1 360	1 340	1 160	460	160	190	Department of Trade and Industry
180	120	60	-20	60	30	Export Credits Guarantee Department
-250	-510	620	100	-60	-100	Department of Energy
4 020	3 950	3 960	-120	-250	-380	Department of Employment ⁴
5 360	5 540	5 660	-330	240	330	Department of Transport
1 710	2 040	2 380	-970	-1 290	-1 010	DOE—Housing
4 480	4 540	4 680	520	480	440	DOE—Other environmental services ⁵
6 900	7 220	7 390	230	610	750	Home Office
1 080	1 170	1 240	-20	30	60	Legal departments ⁶
19 570	20 240	20 780	470	870	1 000	Department of Education and Science
980	1 010	1 050	70	30	30	Office of Arts and Libraries
23 160	24 380	25 390	1 060	1 460	1 700	Department of Health
50 100	55 300	58 700	-900	-100	1 700	Department of Social Security ⁴
8 970	9 140	9 680	210	410	410	Scotland
3 790	3 900	4 020	140	240	230	Wales
5 470	5 690	5 920	20	140	180	Northern Ireland
4 080	4 280	4 490	-130	40	90	Chancellor's departments
320	340	350	100	70	70	Other departments
3 500	7 000	10 500	-3 500	-3 500	-3 500	Reserve
-5 000	-5 000	-5 000	-1 000			Privatisation proceeds
			330			Adjustment ⁷
167 100	179 400	191 600	-3 300	—	3 300	Planning total
17 000	16 000	15 500	-500	-700	-1 300	General government gross debt interest
9 500	9 500	9 000	1 600	1 300	900	Other national accounts adjustments
193 700	205 000	216 000	-2 200	600	2 900	General government expenditure

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

³ Includes Intervention Board for Agricultural Produce and Forestry Commission.

⁴ Takes account of a transfer from Department of Employment to Department of Social Security of £50 million in 1989-90 and £80 million in 1990-91 to cover certain increased expenditure on administering benefits for the unemployed.

⁵ Includes Water Services office.

⁶ 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.

⁷ An adjustment for the difference between the assessment of the likely outturn for 1988-89 and the sum of the other items shown.

Foreign and Commonwealth Office (Diplomatic Wing)

1.21 The FCO is responsible for the overseas representation of UK interests. It maintains 208 overseas Posts including delegations to international organisations, covering 165 countries. The Diplomatic Wing also administers expenditure on 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.

1.22 Increased resources are being provided for 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 sterling cost of overseas operations.

Overseas Development Administration

1.23 The net aid programme in 1989-90 is now set at £1,430 million. The new plans represent growth of almost 18 per cent by 1991-92 over previous plans for 1988-89, allowing significant real terms growth. 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, outside the aid programme, to give credit for war service in the pensions of former colonial servants.

1.24 About 60 per cent of the aid programme is spent on bilateral aid, including both financial aid and technical co-operation, 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

1.25 The increase in the projection of the United Kingdom's net payments to Community institutions reflects revised arrangements for the future financing of the Community, higher VAT contributions (reflecting the buoyancy of the economy), higher customs duties (resulting from higher imports from third countries) and a lower share of receipts.

Agriculture / MAFF

1.26 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 and to continue to foster an efficient and competitive agricultural industry, taking account of the interests of producers, consumers and the rural economy and environment.

1.27 Provision for market support has been reduced as a result of the progress in reforming the CAP, the likely short term effects on agricultural prices of the drought in North America and the smaller than expected 1988

-k

harvest in the United Kingdom. There are also savings from the lower than expected take up of capital grants under the Agricultural Improvement Scheme; increased cost recovery from the chargeable advisory services; and reduced Government expenditure on near market R&D in favour of higher priority science and technology. Provision has been made for increased spending on flood prevention and forestry.

Trade and Industry

the disposal of works /
surge /

1.28 The Department's main objective is to encourage enterprise and wealth creation. Expenditure on the Enterprise Initiative is expected to build up to £160 million by 1991-92. The new plans reflect the privatisation proposals for British Steel and shipbuilding. There are increases in provision for regional assistance, as a result of an increase in applications for Regional Development Grant before the scheme's closure. There are further increases for the Shipbuilding Intervention Fund and capital works for the relocation of some of the Department's activities away from London. Planned spending falls in 1991-92 principally because of the ending of launch aid commitments.

Export Credit Guarantee Department

of /

1.29 The Department aims to support UK exports by providing credit insurance facilities. In order to match the support given by other major trading nations, ECGD supports the provision of export finance at fixed rates of interest. These give rise to interest support costs, representing 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

1.30 The plans for 1989-90 and 1990-91 provide for net reductions in the energy nationalised industries' external finance requirements. The increase in 1991-92 takes account of the privatisation of the electricity industry, as a result of which the substantial net repayments of external finance disappear from the public expenditure figures. The changes in the departmental programme reflect the reduction in the fast reactor programme; there are also increases in provision for handling nuclear waste, offset by reductions in other nuclear R&D expenditure.

Employment

1.31 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 increased provision for running costs, including measures to achieve better targeting of help for the unemployed.

Department / Transport

about /
There are / l.c. / about / 70 /

1.32 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. Starts are planned for over 40 schemes in 1989-90 which will add more than 200 miles of new road. Increases of £140 million in 1989-90

A electrification, /

B is increased by £150 million in 1989-90 over previous plans, /

£/£/ for /
£/£/

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.

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

1.34 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 improve safety and plans for the Civil Aviation Authority provide for accelerated investment to enhance the capacity of air traffic control.

£200 million extra provision for 1989-90, mainly on /
£/ caps / £/£/ /
s/

Housing

1.35 Provision for gross capital investment in public sector housing has been set at over £4 billion a year: an increase for 1989-90 of about £450 million on previous plans and for 1990-91 of about £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.

1.36 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, a substantial increase over previous forecasts.

Other Environmental Services

1.37 The plans include provision for expenditure on inner city regeneration and other environmental and recreational services. Increased provision has been made for the Urban Development Corporations, for City Grant and for the Countryside, environmental research, and the preservation of historic buildings.

£/ caps increased by £50 million net in 1989-90 /
£/ l.c. /

1.38 Additional provision is included for local authorities to meet the capital costs of preparing for the introduction of the Community Charge. The figures also reflect the effects (other than net privatisation proceeds) 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.

£/ £/ in 1989-90. Since the water industry will be privatised a net year external finance for it is included for 1989-90 only /

Home Office

1.39 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 spending 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 1989-90).

Sounds v feeble (X)

X

A The corresponding figures for the UK as a whole are ~~estimated~~ over £2 billion and over £2 1/2 billion respectively. /
B For hospital and community health services in England, current resources will be about 5 per cent more in real terms in 1989-90 than in 1988-89. This

Legal departments

1.40 Spending on legal aid is expected to increase, and additional resources have been provided for this and also 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

1.41 Total spending of about £19.6 billion is planned for 1989-90, most of it by local authorities. In the schools, 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.

1.42 In higher education, participation is expected to go on rising from its present record level. The number of first degrees awarded is expected to be around 135,000 in 1990, more than 25 per cent up on a decade earlier. More money has been made available for universities and to put the polytechnics and colleges on a sound footing for their new independent status. Substantial extra spending on the science budget is planned (see paragraph 1.68).

It was 4 1/2 of a real strike. Why? Difference?

Arts and Libraries

1.43 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, to 1991-92 and there are further increases in 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 libraries, museums and galleries.

Health

1.44 An increase of £1,250 million has been made on the previous plans for the NHS in England in 1989-90, with an addition of £1,470 million in 1990-91. As a result total current expenditure on hospital and community health services is planned to rise from £12,640 million in 1988-89 to £13,500 million in 1989-90, and £14,650 million in 1991-92. Health authorities will also have available extra cash released by a new round of cost improvement programmes, income generation schemes and by higher receipts from land and property sales. 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 7 1/2 per cent to 4 per cent. Taking all these factors into account, the resources available to the NHS have been increased by £1 3/4 billion in 1989-90. For health authorities, current resources will be about 5 per cent more in real terms in 1989-90 than in 1988-89. /

in England / and over £2 billion in 1990-91 / 8/ 8/ / A

1.45 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.

1.46 Gross hospital capital expenditure plans have been increased by £170 million next year, so that health authorities will have 16 per cent more resources for capital spending in 1989-90 than previously provided for.

1 Public expenditure plans

- A based on the upratings which would have taken place if the error had not occurred /
- B to meet higher rents and to provide for the transitional protection announced on [date]

1.47 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 of about £210 million in 1989-90 and £270 million in 1990-91.

~~THIS IS NOT V GOOD - CST COULD IMPROVE~~

3/

Social Security

What does this mean?

1.48 The new plans reflect the latest estimate of benefit expenditure over the Survey period. They imply an average increase of some 2 per cent a year more than the assumed increase in prices. 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 calculated directly from the published increase in the RPI for the year to September 1988 (5.9 per cent) 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.

the RPI error discovered in November 1987

ask HM to do 80

The £ announced by the Secretary of State on 27 October provision for estimated £

1.49 Provision is included for the extra cost of special assistance to low income families, changes to housing benefit, and to help income support claimants meet their 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 to meet the cost of increased take-up. These increases are partly offset by the effect of the fall in unemployment (including the tightening up of the benefit regime), and the decision not to uprate child 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.

Scotland, Wales and Northern Ireland

1.50 The net changes in these programmes mainly reflect the effects of changes in comparable programmes in England. 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.

Chancellor's departments

1.51 The main changes to spending by the Chancellor's departments are on Inland Revenue and Customs running costs. Most of the increase for Inland Revenue is to provide for the introduction of Independent Taxation and 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 (particularly to combat drug trafficking) but subsumes cumulative efficiency savings of about 2½ per cent a year.

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Other departments

1.52 This includes 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.

on the 1991 Census

Local authorities

Current 1.53 Local authorities/public expenditure 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 1988 public expenditure White Paper by £1.2 billion in 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 from the estimated outturn for 1988-89. The allocation to services is based broadly on authorities' budgets for 1988-89.

8/5/
adjusted for changes in local authority responsibilities/
of £17.4 billion proposed

1.54 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 1988.

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

1.56 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 Services on 27 October.

1988/

Capital 1.57 Local authority gross capital spending in Great Britain in 1988-89 is forecast to be £8.1 billion. After allowing for capital receipts, net spending is forecast to be ~~£4.7 billion~~.

3.4/

£6.7 billion and 8/

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

1.59 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

1.60 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.

1.61 External financing limits (EFLs) for the nationalised industries in 1989-90 are listed in Table 1.3. Investment plans have been substantially increased, particularly in the water and transport industries: for 1989-90 the increase is 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 per cent).

1.62 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 1.8). ~~Total~~

The/

disappearance from the public expenditure figures

8/8/ reflects / LA following privatisation /

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 the effects of privatisation remains downward (see footnote to Table 1.8).

1.63 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 will encourage progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.

Table 1.3 External financing limits for the nationalised industries 1989-90

	£ million ¹
British Coal	560
British Railways Board	439
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
Total	- 35

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 1.34) and privatisation during 1989-90.

8/

Other public corporations

1.64 This includes provision 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

1.65 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 and ratios to national income both including and excluding privatisation proceeds.

Reserves

1.66 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.

and now the move into Budget surplus

Debt interest

3/4/81

1.67 General government gross debt interest is projected to fall from about £17.7 billion in 1988-89 to about £15.5 billion in 1991-92 (see Table 1.4). Following the reduction in government borrowing in recent years, debt interest has declined as a proportion of GDP from 5.4 per cent in 1981-82 to about 3.3 per cent in 1988-89 and is projected to fall further to 2.3 per cent by 1991-92.

Table 1.4 General government debt interest

	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 projection	1990-91 projection	1991-92 projection
£ billion						
General government gross debt interest ¹	17.6	17.5	17.7	17	16	15.5
General government interest and dividend receipts	6.0	6.0	6.4	6.5	6.5	6.5
General government net debt interest	11.6	11.6	11.3	10.5	9.5	9
per cent						
General government gross debt interest as a percentage of GDP	4.5	4.4	3.3	3.2	3	2.3
General government net debt interest as a percentage of GDP	3	2.3	2.2	2	1.3	1.1
¹ Of which: Servicing of indexed securities (gilts plus national savings)	1.1	1.3	1.4	1.6	1.8	1.8

4/7/

ⓐ The latter will increase by 16 per cent between

Science and Technology

1.68 The science and technology expenditure of Departmental programmes has been reviewed in the Survey. The new plans reallocate resources towards increased funding of basic and long term strategic research by the universities and Research Councils. Overall an extra £130 million a year has been added to planned spending on civil science and technology in 1989-90 including an extra £95 million for the DES science budget. This represents an increase for 1989-90 over 1988-89 of £120 million, or 16 per cent.

2 3/4 most of it / 1988-89 and / 8/1

about / '41

Capital spending

1.69 Extra provision of ~~over~~ £2½ billion has been made for capital spending in 1989–90. This includes large increases for investment in hospitals, housing, prisons, and roads. In addition, increased investment by the nationalised industries includes expenditure on measures by the water authorities to combat pollution and by London Regional Transport to improve safety.

Value for money

1.70 The Government attaches very high priority to getting better value for money from all public expenditure. The improvements in public services that will result from the new public expenditure plans described above will be increased further 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 and will include details of performance against specific targets.

8 / 51

1.71 Since 1979 efficiency scrutinies have saved over £1.4 billion on a cumulative basis. In 1988–89 departments aim to achieve value for money improvements in purchasing and supply totalling some £3½ million, while market testing is now saving some £40 million a year. 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.

3) 40 / the scope for contracting out /

31

1.72 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, value for money improvements of over £200 million a year have been achieved following work by the Audit Commission; and the Commission has identified 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 grown significantly faster than recorded productivity growth in the economy as a whole.

throughout /

Further information

1.73 Tables 1.5 to 1.8 show the new plans broken down into spending by the three spending authorities: central government, local authorities and public corporations (including nationalised industries). Table 1.5 shows in addition the differences between the planning total and general government expenditure. Tables 1.9 and 1.10 show expenditure by department, from 1978–79 to 1991–92, in cash and real terms. Table 1.11 shows how the new plans compare with plans published in previous years. Table 1.12 shows how the ratios of GGE to GDP projected on the basis of the new plans compare with those projected in previous plans.

Changes in the presentation of public spending plans

1.74 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 (PEWP). This Autumn Statement accordingly now contains most of the general information on the Government's spending plans previously contained in Chapter 1 of the PEWP.

1.75 The 1989 PEWP will be published as usual in January, but its role will be principally to spell out the details of individual departmental programmes. The individual chapters will be published in separate volumes. This will provide a stepping stone to the eventual production of departmental reports, which will replace the PEWP. It will also enable those interested in a particular department to obtain only that volume.

1.76 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 themselves. The new planning total is to be introduced in the 1989 public expenditure Survey and will first appear in the 1989 Autumn Statement.

Table 1.5 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	123.5	131.0	136.6
Local authorities ¹	38.0	40.7	43.2	44.1	45.6	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	179.4	191.6
General government gross debt interest ²	17.6	17.5	17.7	17.0	16.0	15.5
Other national accounts adjustments ²	7.5	8.2	9.6	9.5	9.5	9.0
General government expenditure	164.4	171.5	180.9	193.7	205.0	216.0

*need line but perhaps not
not to*

7/

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

²See footnotes to Table 1.2.

*5/11/88
LA award
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Table 1.6 Central government spending¹

	£ million								
	Latest estimates of outturn			New plans			Change from January 1988 White Paper ¹		
	1987-88 outturn	1988-89 estimated outturn	Change 1987-88 to 1988-89	1989-90 plans	1990-91 plans	1991-92 plans	1988-89	1989-90	1990-91
Ministry of Defence	18 853	19 300	450	20 120	21 180	22 090	80	150	600
FCO—Diplomatic wing	660	750	90	770	810	850	30	30	50
FCO—Overseas Development Administration	1 304	1 450	150	1 510	1 600	1 660	50	30	80
European Communities	1 664	950	-710	1 970	1 950	1 580	150	500	630
Ministry of Agriculture, Fisheries and Food	1 796	1 650	-140	1 710	1 930	2 120	-340	-400	-340
Department of Trade and Industry	900	1 820	920	1 330	1 280	1 130	560	70	80
Export Credits Guarantee Department	151	110	-40	180	120	60	-20	60	30
Department of Energy	575	530	-50	490	410	360	20	30	-20
Department of Employment	3 783	3 990	200	3 870	3 810	3 810	-120	-260	-380
Department of Transport	1 373	1 430	60	1 780	1 880	1 940	-30	290	350
DOE—Housing	1 301	1 380	80	1 400	1 630	1 920	60	20	160
DOE—Other environmental services	468	510	40	650	670	670	20	190	200
Home Office	992	1 150	160	1 430	1 570	1 560	30	260	370
Legal departments	793	960	160	1 080	1 170	1 240	-20	30	60
Department of Education and Science	2 694	2 970	280	4 280	4 400	4 460	30	270	280
Office of Arts and Libraries	369	420	50	440	450	480	0	0	0
Department of Health	16 654	18 380	1 730	19 720	20 820	21 730	840	1 250	1 470
Department of Social Security	42 522	43 600	1 100	46 400	50 200	53 200	-800	-500	1 100
Scotland ²	3 459	3 800	350	3 860	4 060	4 220	110	130	190
Wales ²	1 539	1 710	180	1 860	1 920	1 980	50	140	140
Northern Ireland ²	3 799	4 060	260	4 290	4 480	4 660	60	110	140
Chancellor's departments	3 438	3 670	240	4 090	4 290	4 500	-130	40	90
Other departments	296	360	70	320	340	350	100	70	70
Total	109 380	115 000	5 600	123 500	131 000	136 600	700	2 500	5 400

¹ See footnotes to Table 1.2. Figures exclude finance for public corporations.² See paragraph 1.50.

Table 1.7 Local authority spending¹

	£ million								
	Latest estimates of outturn			New plans			Change from January 1988 White Paper		
	1987-88 outturn	1988-89 estimated outturn	Change 1987-88 to 1988-89	1989-90 plans	1990-91 plans	1991-92 plans	1988-89	1989-90	1990-91
Ministry of Agriculture, Fisheries and Food	179	190	10	220	230	210	-10	20	20
Department of Trade and Industry	86	100	10	100	100	100	0	0	10
Department of Employment	127	140	10	140	140	150	10	0	0
Department of Transport	2 530	2 560	30	2 750	2 820	2 900	-90	30	20
DOE—Housing	1 406	730	-670	310	380	390	-960	-1 230	-1 080
DOE—Other environmental services	3 230	3 870	640	3 750	3 660	3 780	500	280	120
Home Office	4 710	5 130	420	5 460	5 650	5 830	200	350	390
Department of Education and Science	14 387	15 470	1 080	15 290	15 840	16 310	440	600	720
Office of Arts and Libraries	520	560	40	540	560	570	60	20	30
Department of Health	3 050	3 340	290	3 430	3 550	3 660	220	210	230
Department of Social Security	3 727	3 970	250	4 630	5 080	5 460	-30	390	590
Scotland ²	4 253	4 580	320	4 760	4 860	5 010	170	260	230
Wales ²	1 714	1 780	70	1 820	1 870	1 930	100	90	100
Northern Ireland ²	782	820	40	870	900	940	0	20	30
Total	40 701	43 200	2 500	44 100	45 600	47 300	600	1 100	1 400
of which:—									
Relevant expenditure ³	31 985	34 400	2 500	35 200	36 400	37 500	1 200	1 700	2 000
Other current	5 071	5 400	300	6 100	6 600	7 100	0	400	700
Capital	3 645	3 400	-200	2 800	2 600	2 700	-600	-1 100	-1 200

¹ See footnotes to Table 1.2. Figures exclude finance to public corporations.² See paragraph 1.50.³ Public expenditure relevant for Aggregate Exchequer Grant.

Table 1.8 Public corporations^{1,2}

	£ million								
	Latest estimates of outturn			New plans			Change from January 1988 White Paper		
	1987-88 outturn	1988-89 estimated outturn	Change 1987-88 to 1988-89	1989-90 plans	1990-91 plans	1991-92 plans	1988-89	1989-90	1990-91
FCO—Overseas Development Administration	0	30	30	30	30	30	0	0	0
Ministry of Agriculture, Fisheries and Food	2	20	20	20	0	0	0	0	-20
Department of Trade and Industry	-258	-210	50	-70	-50	-70	-110	80	100
Department of Energy	-347	-310	40	-740	-920	-270	80	-100	-80
Department of Employment	5	0	0	0	0	0	0	0	0
Department of Transport	683	820	140	830	840	810	-220	-70	-40
DOE—Housing	-10	-60	-50	-10	20	70	-80	-90	-90
DOE—Other environmental services	-57	10	60	80	210	230	10	0	120
Department of Health	12	10	0	0	0	0	0	0	0
Scotland ³	375	340	-40	350	220	450	-60	20	-10
Wales ³	78	100	20	110	100	100	0	0	-10
Northern Ireland ³	345	280	-60	310	310	320	-40	10	10
Chancellor's departments	-7	0	0	-10	-10	-10	0	0	0
Total⁴	820	1 020	200	900	750	2 200	-420	-140	-10
of which:—									
Nationalised industries	268	400	130	-30	-420	960	-290	0	-30
Other public corporations	552	630	70	930	1 170	1 240	-130	-140	20

¹ See footnotes to Table 1.2.² 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 1.50.⁴ For nationalised industries to be privatised, provision is included in plans as follows: Water (England and Wales) until 1989-90; Electricity (England, Wales and Scotland) until 1990-91. Precise

external financing requirements will depend on the timing of reorganisation and privatisations. Excluding these industries figures for the remaining industries are: 1989-90 £1,280m; 1990-91 £1,120m; 1991-92 £980m.

Table 1.9 Public expenditure by department, 1978-79 to 1991-92¹

✓ LINE + FOOTNOTE

	£ 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	21.2	22.1
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 ¹	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	0.2	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	4.0	4.0	4.0
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 ¹	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 ¹	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	55.3	58.7
Scotland	3.9	6.5	6.8	7.1	7.2	7.7	8.1	8.7	9.0	9.1	9.7
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	2.5	2.6	2.8	3.2	3.4	3.7	4.1	4.3	4.5
Other departments	0.4	0.6	0.1	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 ¹								0.3			
Planning total	65.7	113.6	120.4	129.9	133.8	139.3	145.7	153.6	167.1	179.4	191.6
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	15.5
Other national accounts adjustments	1.8	5.2	5.5	4.7	6.7	7.5	8.2	9.6	9.5	9.5	9.0
General government expenditure	75.0	132.6	140.4	150.6	158.2	164.4	171.5	180.9	193.7	205.0	216.0
General government expenditure (excluding privatisation proceeds)	75.0	133.1	141.6	152.8	160.9	168.9	176.7	186.9	198.7	210.0	221.0

¹ See footnotes to Table 1.2.

Table 1.10 Public expenditure in real terms¹ by department, 1978–79 to 1991–92²

	£ 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	18.6	19.7	19.5	19.1	18.9	18.2	18.0	18.3	18.6
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	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	0.2	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	3.6	3.4	3.3
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	2.0
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	6.3	6.2
Legal departments ²	0.3	0.5	0.5	0.5	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	47.9	49.3
Scotland	8.0	8.2	8.2	8.2	7.9	8.1	8.1	8.2	8.0	7.9	8.1
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	5.0
Chancellor's departments	3.0	3.3	3.0	3.0	3.1	3.3	3.4	3.5	3.7	3.7	3.8
Other departments	0.8	0.8	0.1	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 ²								0.3			
Planning total	134.9	143.0	145.0	148.9	145.6	146.7	145.7	144.6	149.7	155.4	161.1
General government expenditure	153.8	167.0	169.2	172.7	172.1	173.1	171.5	170.2	173.6	177.5	181.6
General government expenditure (excluding privatisation proceeds)	153.8	167.6	170.5	175.2	175.0	177.8	176.7	175.9	178.1	181.8	185.8
GDP deflator (% increase on previous year) (1987–88 = 100)	48.7	7.1	4.6	5.1	5.4	3.3	5.3	6½	5	3½	3
	48.7	79.4	83.0	87.2	91.9	95.0	100.0	106.2	111.6	115.5	118.9

¹ Cash figures adjusted to 1987–88 price levels by excluding the effect of general inflation as measured by the GDP deflator.² See footnotes to Table 1.

+ Footnote *

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✓

1 Public expenditure plans

Table 1.11 Public expenditure planning total¹; plans and outturn

	£ billion									
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
										plans outturn and estimated outturn
March 1982 White Paper (Cmnd 8494)	120.8	127.8								
February 1983 White Paper (Cmnd 8789)	119.7	126.6	132.4							
February 1984 White Paper (Cmnd 9143)	120.5	126.6	132.2	136.8						
January 1985 White Paper (Cmnd 9428)	120.4	128.3	132.2	136.9	141.7					
January 1986 White Paper (Cmnd 9702)	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			
January 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	179.4	191.6	

¹Public expenditure planning total on current definitions.

Why are all these in bold?

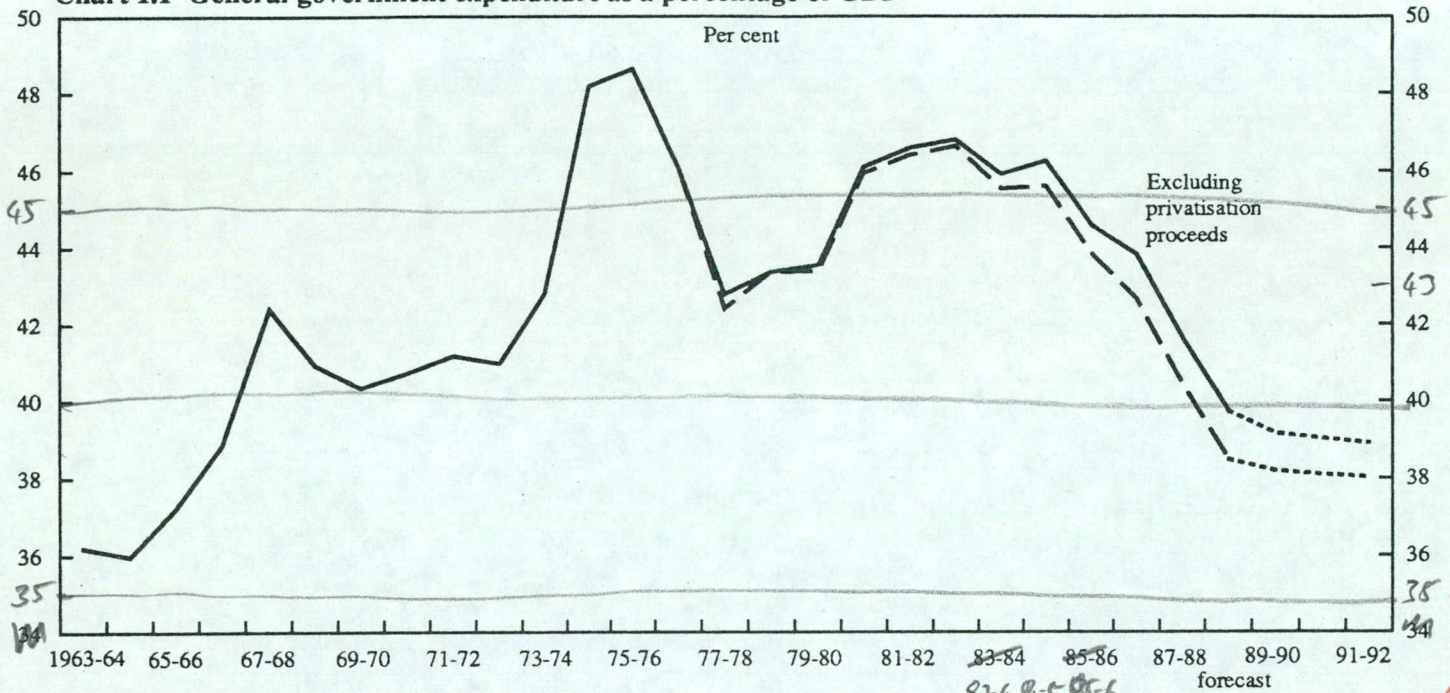
Table 1.12 General government expenditure, excluding privatisation proceeds, as a percentage of GDP; plans and outturn

	per cent									
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
										plans outturn and estimated outturn
March 1984 FSBR ¹	46	45	44	43						
March 1985 FSBR ¹	46	46½	45¾	44	43					
January 1986 PEWP (Cmnd 9702)	46½	46½	45	44	43	42½				
January 1987 PEWP (Cm 56)	46½	46½	44¾	44½	44	42¾	42½			
January 1988 PEWP (Cm 288)	46	46½	44½	44	42½	42	41¾	41½		
This Autumn Statement	45¾	46½	44½	43¾	41½	39¾	39½	39	38¾	

¹Financial Statement and Budget Report.

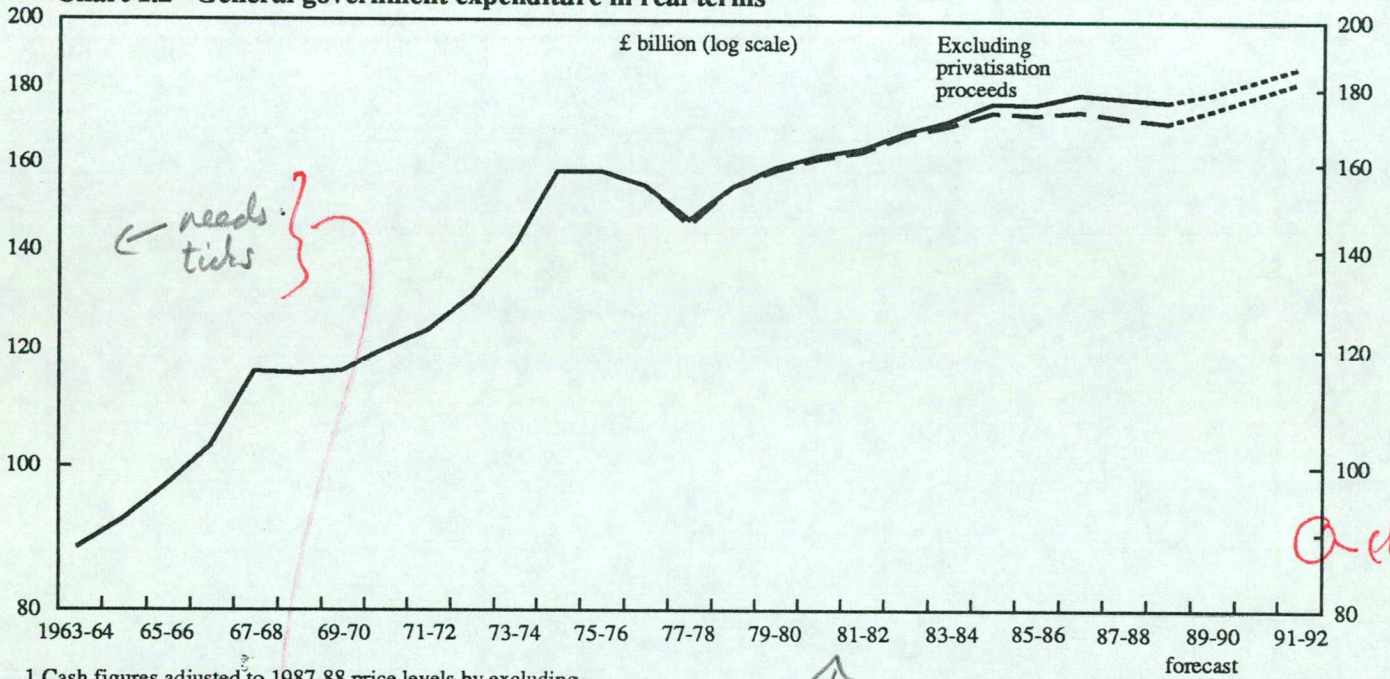
Same question

Chart 1.1 General government expenditure as a percentage of GDP



*This data is
horizontal axis -
vertical axis -
known*

Chart 1.2 General government expenditure in real terms¹



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

← needs ticks }

↑ re-do with entry p end year.

ch?

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(same space, as a point show 87-8, 88-9 etc)

1.13 Chart 1.2 and Table 1.1 show 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, ~~in line with that projected in the last public expenditure White Paper, Cm 288.~~

3/4/81
Three/81 91

Well within the rate of growth of the economy as a whole

Chart 1.2 General government expenditure in real terms

Ch
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OK on amendments
AA

1988-89 outturn

1.14 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 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 the overspend on local authority capital expenditure); and lower social security spending resulting from the fall in unemployment.

largely additional receipts under the right-to-buy programme

authority

town