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PART A

Part A.

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Begins : 27/10/88 .
Ends : 7/2/89 .

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Chancellor's (Lawson) Papers:
The 1989 Public Expenditure
White Paper.

DD's: 25 Years

D. Anderson

26/4/96.



PO - CH | NL | 0557 .
PT.A .

FROM: J E MORTIMER
DATE: 27 October 1988

CHANCELLOR

- cc Chief Secretary
- Paymaster General
- Sir P Middleton
- Mr Anson
- Sir G Littler
- Mr Lankester
- Mr RIG Allen
- Mr Turnbull
- Mr Mercer
- Mr MacAuslan
- Mr Evans
- Mr Addison

a
Betty messy - all the
factors listed do seem to
contribute.

OUR NET PAYMENTS TO COMMUNITY INSTITUTIONS: COMPARISONS BETWEEN 1988 AUTUMN STATEMENT AND 1988 PEWP

Mr Allen said that you would like a table showing the differences between these two projections. Such a table is attached.

2. He also said that you would like us to explain the deterioration in terms of higher imports, higher GDP growth, the Brussels package on future financing of the Community, and lower receipts. While it is difficult to quantify exactly the effects of each of these factors (because most of the lines in the table have changed for more than one reason), we can say:

(i) higher imports are largely responsible for higher import duties (Line 2 of the table). These extra payments are not subject to abatement;

(ii) the Brussels package on the future financing of the Community is likely to cost up to about £300 million a year. This is the estimate the Prime Minister gave to the House last February, and we see no reason to change it now;

(iii) stronger growth of the economy is primarily responsible for the large VAT adjustments (Line 3) we expect to pay in 1989-90 and 1990-91. These extra payments will be subject to abatement - though the abatement is, of course, paid a year in arrears;

mention this
in Ch 2 (or
Cabinet paper)
to qualify rather
stare line at present?

CONFIDENTIAL

(iv) our share of receipts in the projection is about the same as in the PEWP projection, despite a 5 per cent stronger exchange rate assumption (which would normally push up our receipts share). If our receipts share had been 5 per cent better (9½ per cent rather than 9 per cent), then our receipts would have been around £100 million a year higher (though there would again be a knock-on effect on the abatement);

(v) our net payments in 1988-89 benefited as a result of provisional twelfths in the first half of 1988. But for this, the net payments figure this financial year would be some £240 million higher.

3. We have not shown any figures for 1991-92 since this year was not included in the last PEWP.

Jm.
J E MORTIMER

*This is
v unconcerning
Why? And
change is
much larger
than £100m*

Differences between 1988 Autumn Statement and 1988 PEWP projections of net payment to Community institutions

	1988-89	1989-90	£ million 1990-91	
			%	%
Contributions				
1. Agricultural levies	-40	-50	-7	-3
2. Customs duties	+130	+200	+29	+18
3. VAT adjustments	-60	+240	+34	+17
4. VAT/GNP contributions	+590	+210	+30	+41
5. Timing factors (advance of own resources and receipt of delayed own resources refund)	+100			

Receipts

6. Receipts (excluding own resources refunds)	+610	+350	+50	+250	+17
7. Abatements	-50	-250	-36	+160	+11
	<u>1280</u>	<u>700</u>		<u>1450</u>	



FROM: A C S ALLAN

DATE: 27 October 1988

AW

MR MORTIMER

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr R I G Allen
Mr Turnbull
Mr MacAuslan
Mr Mercer
Mr Evans
Mr Addison

OUR NET PAYMENTS TO COMMUNITY INSTITUTIONS: COMPARISONS BETWEEN
1988 AUTUMN STATEMENT AND 1988 PEWP

The Chancellor was most grateful for your minute of 27 October.

ACSA

A C S ALLAN



ppp

CAPITAL

Ch/

Capital figures in table behind exclude NIs since privatised. Standard treatment, see eg PEWP footnote on page at back.

Andrew Turnbull has looked into the intergovernmental comparisons excluding housing. Labour Numbers v ropey & shrouded in mystery - in the time available safest formulation is "over 20" for Labour [must be, arithmetically] and increase of 4 per cent for this govt.

GE cannot, I fear, redo this govt. comparison on 88-9 basis - not enough info on current year
mpw.

EE28

EE28 INFRASTRUCTURE AND OTHER PUBLIC SECTOR CAPITAL

Other relevant briefs: B1 Industry Act forecast
 BB1 UK economy: recent developments
 EE9 Transport
 EE16 Health and Personal Social Services

11/11/88.

Factual

(i) Increase in plans for public sector capital spending (gross) likely to be about £2½ billion in 1989-90 (plus a further £250 million in 1989-90 due to VAT on new construction). Too early to give details for later years.

Note: Gross spending usually provides better indication of created new assets than net spending because excludes receipts from sales of land, buildings, etc which are simply a transfer of past capital investment to private sector.

(ii) Details of 1988-89 estimated outturn and 1989-90 to 1991-92 plans will be published in 1989 PEWP.

(iii) Full details of capital/current split still being worked out. Must wait for outline decisions to be translated into detailed figures in 1989 PEWP.

(iv) Intergovernment comparisons

Percentage real terms changes in spending
(excluding additions for VAT)

	1978-79 over 1973-74	1987-88 over 1978-79	1991-92 over 1987-88
<i>Total capital (excluding housing)</i>	<i>over 20</i>	<i>+4</i>	
Total capital (gross)	-23	-1	[]*
NHS capital (England, gross)	-30	+40	+2
Motorways & trunk roads (England)	-41	+30	+20
Railways capital (BR)	0	+16	+60
Schools capital (England, gross)	-63	-23	-16
Housing (England, gross)	-17	-36	-5
Prisons (England and Wales)	-64	+90	+160

Excl H

* No estimate possible at this stage; comparable figures for 1991-92 not available as investment by water and electricity industries will drop out on privatisation. But £2½ billion addition next year means capital spending in 1989-90 planned to be higher in real terms than both 1978-79 and 1987-88.

*unlikely to change 23
Excl H real*

Table 2.10 Public sector capital spending⁽¹⁾ by spending authority and department

	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	plans
£ million									
Central government									
Defence	4,195	4,715	5,360	5,642	5,434	5,659	5,600	5,900	6,000
Foreign and Commonwealth Office ⁽²⁾	9	12	13	13	18	28	32	30	30
Ministry of Agriculture Fisheries and Food ⁽²⁾	127	149	136	108	77	97	101	90	90
Trade and Industry ⁽²⁾	363	359	375	299	365	230	292	230	160
Energy	35	44	50	31	13	11	16		
Employment	44	47	57	58	62	74	62	60	80
Transport	666	637	707	729	759	880	893	910	950
DOE—Housing	502	873	791	748	680	706	675	670	650
DOE—Other environmental services	41	44	52	63	66	86	89	90	90
Home Office ⁽²⁾	95	126	146	176	196	238	325	370	360
Education and Science	243	237	250	287	300	319	326	350	340
Arts and Libraries	15	14	16	21	22	36	59	70	70
DHSS—Health and personal social services	707	731	830	912	992	1,019	1,030	1,060	1,080
DHSS—Social security	9	23	21	48	77	87	143	200	210
Scotland	666	542	559	533	581	515	508	530	520
Wales	325	313	279	271	314	298	313	300	290
Northern Ireland	303	289	311	341	368	367	378	360	380
Chancellor's departments	21	19	37	78	117	145	138	130	140
Other departments ⁽²⁾	97	86	138	145	120	111	90	90	80
Total central government	8,466	9,261	10,128	10,503	10,561	10,908	11,068	11,430	11,510
Local authorities									
Transport	700	764	814	669	585	566	665	670	680
DOE—Housing	2,193	2,877	2,890	2,492	2,347	2,575	2,730	2,630	2,540
DOE—Other environmental services	793	801	993	933	1,016	1,084	823	820	820
Home Office ⁽²⁾	133	157	163	181	184	236	218	210	210
Education and Science	443	457	481	519	523	528	485	490	500
DHSS—Health and personal social services	76	86	95	102	107	119	111	110	110
Territories	1,079	1,333	1,219	1,226	1,332	1,525	1,448	1,520	1,530
Other	155	120	111	105	74	84	60	60	60
Total local authorities	5,571	6,595	6,766	6,226	6,168	6,715	6,540	6,510	6,470
Public corporations									
Electricity	1,632	1,847	1,737	1,648	1,597	1,575	1,765	1,930	2,510
British Steel Corporation	130	190	230	218	254	237	256	270	290
British Rail	239	224	341	400	427	391	498	560	550
Water	736	804	764	847	1,014	1,042	1,104	1,200	1,300
Other nationalised industries ⁽³⁾	1,042	920	592	985	922	1,015	1,139	1,100	1,100
Other public corporations	888	947	1,000	987	982	1,045	1,089	1,130	1,200
Total public corporations	4,667	4,932	4,663	5,084	5,196	5,306	5,852	6,190	6,940
Total public sector capital spending	18,704	20,788	21,557	21,813	21,925	22,929	23,460	24,130	24,920
Real terms ⁽⁴⁾ (base year 1986-87)	22,312	23,708	23,548	22,470	21,925	21,994	21,535	21,400	21,450

The figures for 1987-88, 1988-89, and 1989-90 make no allowance for allocations to capital spending from the Reserve.

⁽¹⁾ See Table 2.11 and paragraph 27 for the definition of public sector capital spending.

⁽²⁾ See footnotes to Table 2.1.

⁽³⁾ Excluding those industries that have been, or are being, privatised.

⁽⁴⁾ Real terms figures are the cash outturns or plans adjusted to 1986-87 price levels by excluding the effect of general inflation as measured by the GDP deflator.

UNCLASSIFIED

SECRET

*Re Pub Expenditure
Capex, 1
MB
we have a million
me in no table.
we also need
a vertical
in separate
writing*

FROM: C F WOOLF
DATE: 7 December 1988

- 1. MRS R J BUTLER
- 2. CHIEF SECRETARY

- cc Chancellor
- Sir P Middleton
- Mr Anson
- Dame A Mueller
- Mr Phillips
- Mr Monck
- Mrs Lomax
- Mr Luce
- Mr Turnbull
- Mrs Brown
- Mr Hansford
- Mr MacAuslan
- Mr Potter
- Miss Walker
- Mr Call

*14/12
4/12
17/12*

*Ch/chart-free and meant
to be boring but one or two
richy pls - not least the
missing cost figs. Still time
for you to comment if you have
any pls.*

*no plans
for
pls.
over
print
no
letter
in
Tables.*

1989 PUBLIC EXPENDITURE WHITE PAPER: CHAPTER 21

I attach a draft of Chapter 21 of the 1989 public expenditure White Paper (PEWP) which contains the detailed analyses which formed the bulk of Volume I of last year's White Paper. The chapter will also include an index to the departmental chapters of the White Paper; this was at the end of Volume II of last year's White Paper. The draft was put together by GEP3 with contributions from LG1 (local authorities), PE2 (nationalised industries and privatisation proceeds) and RC1 (running costs and manpower).

2. Apart from a few sections of the text, in particular those dealing with differences from last year's White Paper, which cannot be finalised until the current exercise to update the PES database for 1988 Survey decisions is completed, the text and table formats are not expected to change significantly. We would, therefore, welcome your comments on the organisation of the material, the text and the structure of the tables. The figures in the tables for 1988-89 to 1991-92 mainly reflect the position before the Survey and virtually all of them will change before publication. The changes for the years 1989-90 to 1991-92 will reflect the Survey outcome; the estimated outturn for 1988-89 will be updated in the light of information received since the Autumn Statement was compiled and we will provide a further submission recommending a total for publication in the PEWP.

CONTENT

3. The first stage in our plans for restructuring the expenditure documents was that most of the material in Chapter 1 of Volume I of last year's White Paper was included in the Autumn Statement. The next step towards replacing the departmental chapters of the White Paper by individual departmental reports, is that the 1989 PEWP is to be published as a series of individual departmental booklets with a further booklet containing a series of supplementary analyses (Chapter 21). The framework of the attached draft of Chapter 21 matches fairly closely to Chapters 2-6 of Volume 1 of last year's PEWP. The minor changes that have been made to the content are listed at Annex A. When the separate departmental chapters become departmental reports in 1991, this statistical material will appear as a supplement to the Autumn Statement.

4. One further change that has been made is the dropping of all the charts; this is felt to be consistent with the wish for this chapter to be of a fairly low key nature with the emphasis on statistics. It is important to ensure that the White Paper is seen as spelling out earlier policy decisions, not as announcing new ones. In this way it should be possible to avoid a Press conference, Ministerial appearances at the TCSC and a debate. The Clerk to the TCSC has said that the Committee will probably be content to examine officials only on the PEWP. On the other hand, the Opposition have apparently not yet given up all hopes of a debate on the PEWP (as well as on the Autumn Statement). That would be most unwelcome, and is contrary to the suggestions in your letter of 4 October to Gordon Brown.

TCSC

5. In response to the TCSC report on the 1988 White Paper three new tables comparing figures in the current White Paper with corresponding figures in previous White Papers have been added. The tables, which are in Section 1 of the Chapter, give comparisons of plans and outturn and changes in plans for public sector capital

now to
be in
early Feb.

spending (Table 21.1.13) and comparisons of plans and outturns for departmental spending for 1987-88 (Table 21.1.22) and 1988-89 (Table 21.1.23). The accompanying text will pick out the main changes.

PUBLIC SECTOR CAPITAL SPENDING

6. One of the few pieces of information that will be new and which may attract some attention is the material on public sector capital spending. During the course of the preparation of this draft there has been a considerable amount of discussion about the best method of presenting these figures in the light of the privatisation of the water and electricity industries. The latter has the effect of moving a substantial sum of capital spending to the private sector in the second and third plans years. In previous White Papers, in order to avoid showing a declining level of capital spending which could lead to unjustified criticism of the Government's record, the public sector capital spending tables have excluded throughout the capital spending of industries that have been or are being privatised. The difficulty this year is that the plans for privatisation are set out much further ahead and involve much larger sums. If this procedure were to be followed this year the exclusion of the substantial capital spending by the water and electricity industries would involve showing a much lower level of spending than last year and would also make it difficult to show the £2½ billion increase for 1989-90 heralded in the Autumn Statement. (This rightly includes capital spending by the water and electricity industries since they will still be in the public sector in that year.)

7. It was eventually concluded that the best course of action would be to include figures for water for 1989-90 and electricity for 1989-90 and 1990-91 in the detailed lines of the table but leave blank the totals for public corporations and public sector capital spending for 1990-91 and 1991-92 since they would not have the same coverage as figures for earlier years. Total capital spending figures on a consistent basis, ie excluding these industries throughout, would not appear in the table but would be given in a footnote. A similar change has been made to the

capital spending table in the public corporations section (Table 21.3.4). We will be looking at this again when the final figures are available and will let you know if we feel that a change to the above presentation is required.

RUNNING COSTS/MANPOWER

8. Two other areas where the information appearing in the PEWP will be new are running costs and manpower which are not touched on in the Autumn Statement. Although final figures are not yet available, Table 21.1.15 and paragraph 1.52 are expected to show an increase in 1989-90 plans for gross running costs over 1988-89 estimated outturn of about 7½ per cent - as foreshadowed by the RC1 scorecard during the Survey discussions. Civil Service manpower shows a large increase in 1989-90 plans over 1988-89 estimated outturn of about 14,000; paragraph 1.59 tries to put this increase into its proper perspective.

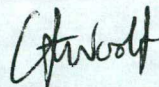
TIMETABLE

9. The chapter is due to go to the printers by the end of next week. We will show you this chapter again, in marked up proof form towards the end of the month. During the course of the discussions of the revisions to the arrangements for presenting information on the Government's public expenditure plans it was agreed that the draft of this chapter of the White Paper could be circulated to PFOs rather than to Cabinet. We are aiming to send a copy of the proof to PFOs before Christmas. In order to prevent significant late changes to the local authority section LG are in the process of clearing the current draft with DOE and the Scottish and Welsh Offices.

10. We will submit proofs of the departmental chapters to you at the same time as the proofs of Chapter 21. We do not intend to circulate copies of the Departmental chapters to Cabinet (nor did we do so last year). We will tell PFOs when we circulate Chapter 21 that chapters are available for their Ministers to see on request. (Departments should have cleared their own chapters with their Ministers and we are arranging for the territories to see

the relevant chapters.) In early January, we will submit a draft letter for your Office to send to No 10, copied to colleagues, seeking clearance for publication and for the publication date.

11. Publication is planned for 31 January. We recommend that there should be no press conference, though we will issue a press notice. We will submit on this issue nearer the time.



C F WOOLF
GEP3
ext 5639

1989 PEWP: CHAPTER 21 - CHANGES FROM LAST YEAR'S WHITE PAPERSection 1 - Additional Analyses

- a. References to the developments on Financial Reporting to Parliament and the new Planning Total have been added. The references to the new planning total have been intentionally kept very low key.
- b. An extra table which shows a territorial breakdown of expenditure over a number of years has been added (Table 21.1.8).
- c. A new table (21.1.16) has been added to show, for outturn years only, the gross cost of administration of government departments, ie gross running costs plus the costs of areas exempted from gross running costs control.
- d. The existing material on the differences from last year's White Paper and the material on the costs of direct tax allowances and reliefs has been moved to this section from the notes and glossary section (Section 5).

Section 2 - Local authorities

- e. The table and text on the financing of local authority expenditure in narrow RSG terms have been omitted to allow the section to concentrate on the broader financing of local authority expenditure.
- f. Apart from (e) above, the basic structure of the section is similar to the local authority chapter (Chapter 3) in Volume I of the 1988 PEWP, although it has been shortened and a number of changes have been made to reflect the decision to end the cash limiting of local authority capital in England and Wales (DOE/LA1 and WO/LA1).

Section 3 - Public corporations

g. The basic structure of this section is also virtually unchanged from the public corporations chapter (Chapter 4) of Volume 1 of the 1988 PEWP.

Section 4 - Historical trends

h. The paragraphs and tables showing long term trends in public expenditure originally prepared for an Economic Trends article in late 1987 have been dropped.

i. In order to allow the full run of figures since 1978-79 to be shown the tables have had to be switched from portrait to landscape.

j. A new table has been added to show the percentages of total departmental spending devoted to each function. This replaces a chart which appeared in Chapter 1 of Volume 1 of last year's PEWP.

Section 5 - Notes and Glossary

k. The material on the differences from last year's White Paper and the costs of direct tax allowances and reliefs has been moved to Section 1.

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Section 4 Historical trends

Section 5 Notes and glossary

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Bibliography

1. Additional analyses

Introduction

1.1. The Autumn Statement, published on 8 November 1988, contained the results of the 1988 Public Expenditure Survey in broad terms. This White Paper gives more detail.

1.2. Details of each department's plans, including measures of output and performance and targets for improving value for money, are set out in the earlier chapters of the White Paper. Descriptions of the plans for individual nationalised industries and other public corporations are included in these earlier chapters with the plans of their sponsor departments.

1.3 The format of the White Paper differs from last year's in two respects. Firstly the departmental chapters which made up Volume II of last year's White Paper have been published as separate departmental booklets (**Chapter 1-20, Cm 601-620**). Secondly most of the material in chapter 1 of Volume I of last year's White Paper was included in the Autumn Statement; the remainder of the material from Volume I is included in this booklet. These changes have been made as a preliminary step in the process of transferring the responsibility for departmental chapters from the Treasury to individual departments. At the time of the transfer of responsibility, which is due to take place in 1991, the timing of the publication will also be changed and the departmental reports will then be published in March at about the same time as the Supply Estimates. The analyses in this booklet will continue to be produced as a supplement to the Autumn Statement but the precise arrangements for the timing and format of publication have not yet been decided. Further details of the changes that have been or are to be made are set out in a White Paper entitled "Financial Reporting to Parliament"(Cm 375).

1.4. The spending plans for the coming three years are determined and controlled in cash, and the plans for 1989-90 will form the basis for the Supply Estimates, cash limits and other spending controls for that year. Revised projections of government receipts and borrowing/debt repayment over the medium term will be contained in the Financial Statement and Budget Report, to be published on Budget day.

1.5. **Section 1** of this chapter of the White Paper contains more detailed analyses of the public expenditure plans announced in the Autumn Statement. **Sections 2** and **3** summarise the plans for spending by local authorities and public corporations (including nationalised industries) respectively. **Section 4** contains further information on historical trends in public spending and **Section 5** contains an analysis of the differences in coverage between general government expenditure (see paragraph 1.11) and the planning total (see paragraph 1.12) and a glossary of technical terms used in the White Paper. An **index** to the departmental booklets is included at the end of this chapter.

Section 1 1.6. This section amplifies the expenditure plans in the Autumn Statement by showing the relationship between the four key ways of analysing public expenditure, namely:

(i) who plans it : department (**Tables 21.1.1** and **21.1.2**);

- (ii) who spends it : spending authority (**Tables 21.1.3 to 21.1.6**);
- (iii) where it goes : function (**Chart 21.1.7 and Table 21.1.9**); and
- (iv) what it is spent on : economic category (**Tables 21.1.10**).

1.7. It also explains the measurement of public expenditure and related concepts and provides a range of additional analyses including material on:

- (i) the relationship between the plans and the funds that Parliament will be asked to vote in Estimates (**Tables 21.1.3 and 21.1.19**);
- (ii) public sector capital spending (**Tables 21.1.11 to 21.1.13**);
- (iii) government spending on science and technology (**Table 21.1.14**);
- (iv) running costs and administrative costs of government departments (**Tables 21.1.15 and 21.1.16**);
- (v) public sector manpower (**Table 21.1.17**);
- (vi) details of privatisation proceeds (**Table 21.1.18**);
- (vii) differences from last year's White Paper (**Tables 21.1.20 to 21.1.24**); and.
- (viii) tax allowances and reliefs (**Table 21.1.25**).

Rounding conventions

1.8. The figures in the historical trends section (**Section 4**) are generally rounded to the nearest £0.1 billion although for the forward years general government debt interest and other national accounts adjustments are rounded to the nearest £0.5 billion. Figures in the remainder of this chapter of the White Paper are shown to the nearest £1 million, except for the last two years (1990-91 and 1991-92) where the figures are generally rounded to the nearest £10 million. (Figures for social security benefits and related totals are rounded to the nearest £100 million for these two years.)

Economic assumptions

1.9. The following economic assumptions underlie the programme totals in this White Paper:

(a) For the purpose of projecting social security benefit expenditure it has been assumed that the uprating in April 1990 will be based on a 5½ per cent increase in the Retail Price Index from September 1988 to September 1989 and the uprating in April 1991 will be based on a 4 per cent increase in the year to September 1990.

(b) The level of unemployment excluding students and those temporarily stopped work in Great Britain is assumed to average 2.1 million in 1988-89 and 1.9 million in 1989-90. Following the usual convention it is assumed to remain at 1.9 million in 1990-91 and 1991-92. The number of students and those temporarily stopped work is assumed to be 32,000 in 1989-90, 1990-91 and 1991-92. For Northern Ireland the number of wholly unemployed adults is assumed to average 105,000 in 1989-90. Again similar assumptions have been made for 1990-91 and 1991-92. The comparable assumption for students and those temporarily stopped work in Northern Ireland is 4,000 in 1989-90, 1990-91 and 1991-92. These assumptions are not intended to be forecasts.

(c) General inflation as measured by the GDP deflator is assumed to be 6¼ per cent in 1988-89, 5 per cent in 1989-90, 3½ per cent in 1990-91 and 3 per cent in 1991-92 (as given in the footnotes to Table 1.1 of the 1988 Autumn Statement). Details of GDP deflators used for years prior to 1988-89 are shown in **Table 21.4.2 of Section 4**.

(d) Money GDP (at market prices) is assumed to be £471 billion in 1988-89, £508 billion in 1989-90, £539 billion in 1990-91 and £569 billion in 1991-92. Details of money GDP used for years prior to 1988-89 are also shown in **Table 21.4.2 of Section 4**.

Definition of public expenditure

1.10. A number of terms are often used to describe public expenditure, for example, "State spending", "government spending", and "public spending" and it is not always clear from the context which definition is being used. There are three main expenditure aggregates:

- (i) general government expenditure (GGE);
- (ii) the public expenditure planning total; and
- (iii) Supply expenditure.

1.11. There are a number of differences between these aggregates and a full discussion of the main definitions and presentations of public spending used in official statistics is contained in an article in the August 1985 issue of Economic Trends entitled "Measuring Public Expenditure". These relationships are also described in a Treasury publication entitled "The Management of Public Spending".

General government expenditure

1.12. General government expenditure is the expenditure of central and local government excluding transfers between them such as government grants to local authorities. It is the key public spending aggregate used in the Medium Term Financial Strategy (MTFS) – see for example Table 2.4 of the 1988 Financial Statement and Budget Report and Table 2.10 of the 1988 Autumn Statement – where public spending is set in the context of the economy as a whole. It is also more appropriate than the other aggregates for international comparisons because generally it is less affected by institutional differences between countries.

Planning total

1.13. For the purposes of planning and control the Government uses the public expenditure planning total. By controlling expenditure within this cash total the Government seeks to achieve its wider medium-term objective of reducing public spending (expressed in terms of GGE) as a proportion of the nation's income.

1.14. The planning total comprises the control totals set for departmental programmes, including public corporations, along with an unallocated Reserve for future years. It is wider than GGE in including all external finance for most public corporations and not just what they obtain from government; it is narrower in excluding debt interest, which is affected by Government policy on borrowing and interest rates but is not controlled as an expenditure programme. Apart from these differences, the planning total is based on the same fundamental national accounts concepts and definitions as general government expenditure. The relationship between these two aggregates and the links with the national accounts are explained further in **Section 5** and a full description of the figures on public corporations which are included in the planning total is given in **Section 3**.

1.15. The Government announced in July 1988 (Cm 441) that the planning total will be redefined to distinguish expenditure which is the responsibility of the central government from that which is the responsibility of local government. This change is consistent with the changes that are being made to local authority financing arrangements, including the replacement of domestic rates by a community charge, which are intended to increase accountability within local government. The new definition, which is to be introduced for the 1989 Public Expenditure Survey, will cover the following;

- central government's own expenditure
- the grants, current and capital, it provides to local authorities. These can be specific or supplementary grants paid to support

particular services or designated items of local authority expenditure; or block grants like revenue support grant which will not be tied to spending on any particular service;

- the credit approvals which under the proposals contained in the consultation paper on local authority "Capital Expenditure and Finance" (July 1988) are issued by central government authorising local authorities to incur expenditure financed by borrowing and other forms of credit;
- the external finance of the public corporations;
- payments to local authorities from the yield of non-domestic rates;
- privatisation proceeds;
- a Reserve.

Figures on this new basis will be published for the first time in the 1989 Autumn Statement.

Supply expenditure

1.16. Supply expenditure is directly financed by money voted by Parliament in the Supply Estimates. It, in turn, finances the bulk of central government public expenditure; the biggest exclusion is expenditure from the National Insurance Fund (NIF) which accounts for well over half of social security spending. Some other Supply expenditure is not directly reflected in the current public expenditure planning total because it represents finance provided by central government to one of the other spending authorities: for example the Estimates include rate support grant to local authorities which is not direct public expenditure. The relationship between Supply expenditure and the planning total is explained in the Summary and Guide to main Estimates (Cm 328 for 1988-89 Estimates).

1.17. The new definition of the planning total will also improve the alignment between the total of Supply expenditure and the planning total. At present about three-quarter of total Supply expenditure scores directly in the planning total. Grants voted to local authorities, which are at present treated as intra government transfers and therefore excluded from the planning total, will in future be included. The result will be that virtually all Supply expenditure will score directly in the planning total. This will simplify the reconciliation of the figures in the Autumn Statement and the departmental reports with those in the Supply Estimates.

Public expenditure by department

Coverage of departmental expenditure

1.18. Table 21.1.1 shows the spending for which individual departments are responsible, over the nine year period 1983-84 to 1991-92. The figures for each department cover all spending for which the relevant Secretary of State has policy responsibility and thus for most departments the figures include not only central government spending but also spending by local authorities and finance for public corporations. For example, the figures for the Department of Transport include expenditure by central government on the national road systems and grants and subsidies to British Rail as well as spending by local authorities on roads and the provision of local transport. The separate contributions of different spending authorities to the departmental totals are shown in the main tables in the departmental booklets.

1 Additional analysis

Table 21.1.1 Planning total by department

	£ million								
	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
Defence	15,478	17,196	17,961	18,155	18,849	19,200	20,144	21,190	22,100
Foreign and Commonwealth Office ⁽¹⁾	1,689	1,804	1,843	1,926	1,950	2,220	2,306	2,430	2,540
European Communities	836	974	822	1,079	1,664	950	1,970	1,950	1,580
Ministry of Agriculture, Fisheries and Food ⁽²⁾	2,032	1,999	2,436	1,768	1,976	1,861	1,946	2,160	2,350
Trade and Industry ⁽³⁾	1,780	2,096	1,891	2,377	882	1,764	1,436	1,340	1,110
Energy	1,112	2,581	684	-183	228	20	-187	-400	-510
Employment	2,899	3,132	3,356	3,870	3,913	4,197	4,064	4,000	3,990
Transport	4,308	4,596	4,674	4,667	4,592	4,878	5,340	5,490	5,620
DOE - Housing	3,154	3,267	2,962	2,805	2,697	2,064	1,557	1,790	1,850
DOE - Other environmental services ⁽⁴⁾	3,817	3,953	3,921	3,952	3,626	4,349	4,475	4,560	4,700
Home Office and legal departments ⁽⁵⁾	4,580	5,159	5,317	5,793	6,495	7,164	7,734	8,040	8,310
Education and Science	13,421	13,940	14,410	15,659	17,081	18,361	19,014	19,600	20,040
Arts and Libraries	649	701	743	818	888	978	976	1,010	1,050
Health	14,733	15,785	16,640	17,922	19,704	21,687	23,119	24,360	25,360
Social Security	35,159	38,119	41,487	44,424	46,265	47,590	50,985	55,300	58,700
Scotland	6,818	7,088	7,215	7,666	8,059	8,724	9,167	9,270	9,560
Wales	2,668	2,678	2,781	3,076	3,339	3,639	3,780	3,890	4,020
Northern Ireland	3,820	4,126	4,372	4,600	4,897	5,198	5,418	5,620	5,810
Chancellor's departments ⁽⁶⁾	2,488	2,602	2,826	3,181	3,432	3,752	4,103	4,300	4,510
Other departments ⁽⁷⁾	61	206	185	192	297	235	269	300	350
Reserve							3,500	7,000	10,500
Privatisation proceeds							-4,984	-4,630	-4,840
Adjustment ⁽⁸⁾	-1,139	-2,171	-2,707	-4,460	-5,136	-4,966			
Planning total	120,364	129,829	133,768	139,283	145,698	153,900	166,132	178,500	188,700
General government gross debt interest	14,525	16,054	17,655	17,587	17,520	17,700	17,000	16,000	16,000
Other national accounts adjustments	5,519	4,666	6,722	7,523	8,230	9,600	9,500	9,500	9,000
General government expenditure	140,435	150,593	158,175	164,421	171,496	180,900	193,700	205,000	216,000

The departmental figures for 1989-90, 1990-91 and 1991-92 make no allowance for allocations from the Reserve.

(1) Including Overseas Development Administration.

(2) Including Intervention Board for Agricultural Produce and Forestry Commission.

(3) Including Export Credits Guarantee Department.

(4) Including Water Services Office.

(5) This group comprises the Home Office, Lord Chancellor's Department, Northern Ireland Court Service, the Crown Prosecution Service, the Serious Fraud Office and the Crown Office, Procurator Fiscal Service and Lord Advocate's Department.

(6) Including Civil Superannuation.

(7) Including Property Services Agency.

(8) See paragraph 1.19 (iii).

Other components of the spending aggregates

1.19. In addition to the public expenditure by departments, Table 21.1.1 shows three other elements of the planning total:

- (i) the Reserve, which provides a margin for uncertainties and is intended to cover any future net additions to departmental spending, whether these result from policy changes, new initiatives, contingencies or revised estimates of demand-led programmes such as social security;
- (ii) privatisation proceeds. In accordance with national accounts' practice these sales reduce the public expenditure planning total; and
- (iii) an adjustment for the difference between the Treasury's overall view of likely outturn for 1988-89 and the sum of the other items shown.

1.20. Table 21.1.1 also shows figures for general government gross

debt interest and other national accounts adjustments, the other adjustments required to move from the planning total to general government expenditure.

1.21. The components of the other national accounts adjustments are shown in **Table 21.5.1** and explained in more detail in **paragraph 5.5**. The most significant are the exclusion of the market and overseas borrowing of public corporations from, and the inclusion of refunded VAT and imputed capital consumption in general government expenditure.

Real terms 1.22. **Table 21.1.2** shows public spending in real terms over the nine year period 1983-84 to 1991-92. Real terms figures are the cash outturns or plans adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator. The assumptions for the GDP deflator are given in paragraph 1.9.

1 Additional analysis

Table 21.1.2 Planning total in real terms⁽¹⁾ by department

	£ million								
	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
Defence	18,645	19,717	19,539	19,113	18,849	18,071	18,056	18,350	18,580
Foreign and Commonwealth Office ⁽²⁾	2,035	2,068	2,005	2,028	1,950	2,089	2,067	2,110	2,140
European Communities	1,008	1,117	895	1,135	1,664	894	1,766	1,690	1,330
Ministry of Agriculture, Fisheries and Food ⁽²⁾	2,448	2,292	2,650	1,861	1,976	1,752	1,744	1,870	1,980
Trade and Industry ⁽²⁾	2,144	2,403	2,057	2,503	882	1,660	1,287	1,160	930
Energy	1,340	2,960	744	-193	228	19	-168	-350	-430
Employment	3,493	3,591	3,650	4,075	3,013	3,950	3,643	3,470	3,360
Transport	5,189	5,270	5,030	4,908	4,592	4,591	4,787	4,760	4,720
DOE - Housing	3,799	3,745	3,222	2,953	2,697	1,943	1,396	1,550	1,560
DOE - Other environmental services ⁽²⁾	4,598	4,532	4,265	4,161	3,626	4,093	4,011	3,950	3,950
Home Office and legal departments ⁽²⁾	5,517	5,915	5,784	6,098	6,495	6,742	6,933	6,960	6,990
Education and Science	16,167	15,984	15,676	16,485	17,081	17,281	17,044	16,970	16,850
Arts and Libraries	782	803	808	862	888	921	875	870	890
Health	17,748	18,099	18,102	18,868	19,704	20,411	20,723	21,100	21,330
Social Security	42,353	43,708	45,133	46,768	46,265	44,790	45,701	47,900	49,300
Scotland	8,213	8,127	7,850	8,071	8,059	8,211	8,217	8,030	8,040
Wales	3,214	3,070	3,026	3,238	3,339	3,425	3,388	3,370	3,380
Northern Ireland	4,601	4,731	4,756	4,843	4,897	4,892	4,856	4,870	4,880
Chancellor's departments ⁽²⁾	2,997	2,984	3,075	3,349	3,432	3,531	3,678	3,730	3,790
Other departments ⁽²⁾	74	236	201	202	297	221	241	260	300
Reserve							3,137	6,060	8,830
Privatisation proceeds Adjustment ⁽²⁾	-1,372	-2,489	-2,945	-4,695	-5,136	-4,674	-4,468	-4,010	-4,070
Planning total	144,993	148,863	145,523	146,633	145,698	144,800	148,914	154,600	158,600
General government gross debt interest	17,497	18,408	19,207	18,515	17,526	16,700	15,000	14,000	13,000
Other national accounts adjustments	8,008	6,134	7,956	8,338	8,230	8,500	8,000	7,000	6,000
General government expenditure	203,785	197,985	187,197	182,230	171,496	160,200	155,600	153,700	152,200

The departmental figures for 1989-90, 1990-91 and 1991-92 make no allowance for allocations from the Reserve.

(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 21.1.1.

1.23. Changes in real terms figures from year to year may show the combined effects of:

(a) changes in the quantity of goods and services bought in past years and provided for in future years and, in the case of transfer payments, the number of beneficiaries and levels of support.

(b) changes in relative prices - that is, the extent to which prices of the goods and services concerned have differed, or may differ, from average price movements as measured by the GDP deflator.

Public expenditure by spending authority

1.24. Table 21.1.3 shows how the planning total is split between central government, local authorities and public corporations.

Table 21.1.3 Planning total by spending authority

	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
Central government (1)(2)	85,111	92,118	98,478	104,726	109,354	115,000	123,411	130,700	136,100
<i>Of which:</i>									
<i>Voted in Estimates</i>	60,736	66,362	71,385	74,080	76,894	81,190	86,399	91,100	95,100
<i>Other</i>	24,375	25,756	27,094	30,646	32,461	33,809	37,011	39,500	41,000
Local authorities (1)	33,153	34,922	35,363	37,923	40,679	43,082	43,460	44,900	46,400
<i>Of which:</i>									
<i>Relevant expenditure</i>	24,699	25,992	26,694	29,112	31,974	34,390	34,659	35,800	36,800
<i>Other current</i>	3,857	4,244	4,510	4,790	5,076	5,286	6,220	6,700	7,200
<i>Capital</i>	4,597	4,687	4,160	4,021	3,629	3,406	2,581	2,430	2,440
Public corporations (3)	3,239	4,959	2,634	1,094	801	750	746	560	520
<i>Of which:</i>									
<i>Nationalised industries (2)</i>	2,274	3,827	1,709	386	268	184	-49	-390	-500
<i>Other public corporations</i>	966	1,132	925	708	533	566	795	950	1,020
Reserve							3,500	7,000	10,500
Privatisation proceeds	-1,139	-2,171	-2,707	-4,460	-5,136	-4,966	-4,984	-4,630	-4,840
Adjustment (4)									
Planning total	120,364	129,829	133,768	139,283	145,698	153,900	166,132	178,500	188,700

(1) Excluding finance for public corporations.

(2) For the years up to 1985-86 loans made by certain departments (other than Trade and Industry) following the adoption of the use of public postal methods by Government departments on 1 April 1981 form part of the Post Office's EFL and are included under public corporations in this chapter; in the departmental chapters the loans by departments are included under central government.

(3) Central government finance for public corporations is included as follows:

Nationalised industries

- voted in Estimates

2,419 3,415 2,812 2,265 2,135 1,434 1,290 1,250

- other

-294 251 -1,264 -1,878 -1,680 -747 -1,320 -1,640

Other public corporations

- voted in Estimates

525 494 455 452 529 628 690 720

- other

345 514 448 341 337 309 290 290

Local authority finance for public corporations is included as follows:

Nationalised industries

149 161 162

Other public corporations

10 51 50 50

(4) See paragraph 1.18(iii).

1.25. This spending authority breakdown is also shown in the departmental chapters (**Chapters 1 to 20**) of this White Paper and should help users of public expenditure documents to trace more easily from the public expenditure plans through to the related control totals such as voted expenditure, local authority relevant spending and nationalised industries' external finance limits. In particular it makes clearer the relationship between the plans in this White Paper and the Estimates which will be published on Budget Day. The tables in each departmental booklet identify voted expenditure, and within voted expenditure, show a functional breakdown of the main components.

1.26. **Tables 21.1.4 and 21.1.5** analyse the spending of central government and local authorities and show the departments responsible for that spending. The figures for each department exclude any finance provided by central or local government to nationalised industries and other public corporations. All such finance is recorded as part of the public corporations' contribution to the planning total aggregate; figures are shown in a footnote to **Table 21.1.3**. Further details of public corporations' spending by department

are shown in **Table 21.1.6**. Details for individual nationalised industries and other public corporations are covered in **Section 3** and discussed in the appropriate departmental booklets.

Central government

1.27. Central government is responsible for about three-quarters of public expenditure. This includes the expenditure of government departments for their own activities and total or partial funding of other public bodies which do not undertake commercial activities as a major part of their work, of which the National Health Service is by far the largest. In addition it covers subsidies to a small number of trading bodies such as the Export Credits Guarantee Department and Remploy Ltd. It does not include central government grants to local authorities, whose own expenditure is shown separately.

Table 21.1.4 Central government spending by department

	£ million								
	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
Defence	15,469	17,108	17,928	18,167	18,849	19,200	20,144	21,190	22,100
Foreign and Commonwealth Office ⁽¹⁾	1,648	1,762	1,809	1,903	1,951	2,189	2,277	2,410	2,510
European Communities	836	974	822	1,079	1,664	950	1,970	1,950	1,580
Ministry of Agriculture, Fisheries and Food ⁽¹⁾	1,821	1,808	2,266	1,578	1,795	1,655	1,708	1,930	2,120
Trade and Industry ⁽¹⁾	1,356	1,688	1,410	2,125	1,053	1,940	1,487	1,390	1,180
Energy	515	505	881	915	575	527	493	410	360
Employment	2,805	3,033	3,238	3,746	3,782	4,056	3,922	3,860	3,840
Transport	1,039	1,155	1,220	1,270	1,379	1,495	1,775	1,880	1,940
DOE - Housing	1,100	1,145	1,188	1,304	1,301	1,386	1,393	1,450	1,500
DOE - Other environmental services ⁽¹⁾	294	332	355	404	464	485	638	660	670
Home Office and legal departments ⁽¹⁾	1,164	1,300	1,427	1,578	1,785	2,039	2,256	2,370	2,470
Education and Science	2,161	2,249	2,356	2,453	2,694	2,958	4,253	4,380	4,440
Arts and Libraries	247	270	287	343	368	420	439	450	480
Health	12,513	13,409	14,173	15,179	16,642	18,342	19,694	20,810	21,700
Social Security	32,627	35,224	38,271	40,947	42,534	43,680	46,288	50,100	53,100
Scotland	2,809	2,973	3,144	3,309	3,459	3,835	4,093	4,280	4,450
Wales	1,213	1,250	1,334	1,454	1,547	1,752	1,874	1,950	2,020
Northern Ireland	2,931	3,120	3,327	3,591	3,777	4,096	4,327	4,530	4,680
Chancellor's departments ⁽¹⁾	2,500	2,614	2,848	3,188	3,438	3,759	4,110	4,310	4,520
Other departments ⁽¹⁾	65	199	190	192	297	235	269	300	350
Total central government spending	85,111	92,118	98,478	104,726	109,354	115,000	123,411	130,700	136,100

(1) See footnotes to Table 21.1.1

1.28. About 70 per cent of central government spending is voted by Parliament through the annual Supply Estimates. The rest consists mainly of those social security payments which are paid out of the National Insurance Fund.

1.29. The largest components of central government spending are on social security, health and defence which together account for over 70 per cent of the total. In other major programmes, such as those of the Departments of Education and Transport and the Home Office, a large proportion of expenditure is carried out by local authorities, and a relatively smaller proportion is spent directly by central government.

Local authorities

1.30. Local authorities are directly responsible for almost a quarter of public expenditure. Elected local councils, education authorities, police authorities, residuary bodies and some other bodies controlled by councils jointly are together responsible for the greater part of expenditure on education, housing, other environmental services, the police and local transport. Details of how this spending is financed, controlled, and distributed between different services are contained in **Section 2** of this chapter.

1 Additional analysis

Table 21.15 Local authority spending by department

	£ million								
	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
Local authority relevant⁽¹⁾									
Ministry of Agriculture, Fisheries and Food ⁽²⁾	91	93	99	130	137	144	149	150	160
Trade and Industry ⁽²⁾	65	68	74	77	83	93	97	100	100
Employment	78	86	89	102	108	119	135	140	140
Transport	1,720	1,797	1,668	1,775	1,855	1,924	2,018	2,080	2,130
DOE - Housing	630	566	600	589	678	625	616	640	660
DOE - Other environmental services ⁽²⁾	2,380	2,478	2,618	2,738	2,998	3,226	3,440	3,650	3,760
Home Office and legal departments ⁽²⁾	3,287	3,726	3,743	4,075	4,523	4,918	5,272	5,460	5,620
Education and Science	10,102	10,525	10,912	12,061	13,222	14,223	13,548	13,950	14,300
Arts and Libraries	362	383	404	437	472	502	520	540	550
Health	2,135	2,274	2,365	2,631	2,965	3,232	3,340	3,460	3,560
Social Security	114	153	170	190	240	243	223	200	200
Scotland	2,674	2,753	2,832	3,085	3,365	3,705	3,793	3,860	3,970
Wales	1,060	1,089	1,119	1,220	1,328	1,437	1,508	1,570	1,610
Total local authority relevant	24,699	25,992	26,694	29,112	31,974	34,390	34,659	35,800	36,800
Local authority other current									
Ministry of Agriculture, Fisheries and Food ⁽²⁾	22	28	27	29	31	34	36	40	40
Employment	12	12	12	13	14	16			
DOE - Housing	17	18	17	20	19	23	25	30	30
Home Office and legal departments ⁽²⁾	14	15	17	19	19	20	21	20	20
Education and Science	734	744	710	703	761	766	859	910	930
Social Security	2,442	2,746	3,050	3,287	3,491	3,667	4,474	4,900	5,300
Scotland	126	142	100	79	45	25	9		
Wales	3	3	4	4	4	4	3		
Northern Ireland	488	535	573	637	693	731	793	820	870
Total local authority other current	3,857	4,244	4,510	4,790	5,076	5,286	6,220	6,700	7,200
Local authority capital (1)									
Ministry of Agriculture, Fisheries and Food ⁽²⁾	69	46	28	18	11	8	33	40	40
Trade and Industry ⁽²⁾	1	3	3	1	3	3	3		
Employment	6	5	4	5	5	4	5		
Transport	798	851	700	641	675	656	733	730	750
DOE - Housing	1,287	1,425	1,074	864	709	95	-438	-320	-370
DOE - Other environmental services	670	743	667	681	232	637	312	30	20
Home Office and legal departments ⁽²⁾	116	121	129	120	168	186	184	190	190
Education and Science	424	423	432	442	404	414	354	360	370
Arts and Libraries	40	48	52	38	48	56	17	20	20
Health	73	78	79	85	84	102	85	100	100
Scotland	730	635	659	712	815	804	907	920	920
Wales	311	251	263	333	383	344	279	260	270
Northern Ireland	72	58	69	79	91	94	106	110	110
Total local authority capital	4,597	4,687	4,160	4,021	3,629	3,406	2,581	2,430	2,440
Total local authority spending	33,153	34,922	35,363	37,923	40,679	43,082	43,460	44,900	46,400

(1) See footnotes to Table 21.1.3.

(2) See footnotes to Table 21.1.1.

Public corporations

1.31. Public corporations, which include the nationalised industries, are publicly owned trading organisations, usually statutory corporations, which have a substantial degree of financial independence including the powers to borrow and maintain reserves. The planning total includes nationalised industries' finance from sources other than revenue generated from their trading activity. This includes their borrowing and leasing from all sources and grants from the Government. The industries' external finance is controlled on an annual basis by external financing limits (EFLs). Details of the

nationalised industries external finance, and how the controls operate, are given in **Section 3** of this chapter, which also summarises the public expenditure treatment and control of other public corporations such as the Urban Development Corporations, the Scottish and Welsh Development Agencies and the Northern Ireland Electricity Service.

1 Additional analysis

Table 21.1.6 Public corporations by department

	£ million								
	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
Nationalised industries external finance⁽¹⁾									
Defence	6	6	-2						
Ministry of Agriculture, Fisheries and Food ⁽²⁾	31	25	16	13	19	20	20		
Trade and Industry ⁽¹⁾⁽²⁾	288	237	329	68	-351	-389	-259	-240	-290
Energy	598	2,077	-197	-1,107	-343	-485	-682	-820	-860
Transport	676	723	1,036	946	666	794	768	750	740
DOE - Other environmental services	341	280	214	121	43	22	58	50	50
Scotland	277	376	232	235	137	117	-54	-210	-220
Wales	25	31	28	17	17	9	10		
Total nationalised industries external finance	2,242	3,755	1,655	293	188	87	-140	-460	-590
<i>Of which: Industries expected to be in the public sector throughout the period</i>	<i>1,911</i>	<i>2,642</i>	<i>1,600</i>	<i>1,917</i>	<i>1,678</i>	<i>1,496</i>	<i>1,346</i>	<i>1,240</i>	<i>1,190</i>
Other public corporations⁽³⁾									
Defence	4	87	36	-12					
Foreign and Commonwealth Office ⁽²⁾	41	42	34	24	-1	31	29	30	30
Ministry of Agriculture, Fisheries and Food ⁽²⁾	-1	-1	-1	-1	-17		-1		
Trade and Industry ⁽²⁾	8			13	13	19	17	20	20
Energy				9	-3	-22	1	10	-10
Employment			12	4	4	4	4		
Transport	75	72		30	17	10	46	50	50
DOE - Housing	120	112	82	28	-10	-65	-39	-10	40
DOE - Other environmental services	132	122	67	7	-110	-21	27	180	200
Health	13	23	23	27	12	10			
Scotland	203	210	248	245	238	238	419	420	440
Wales	56	53	34	48	60	93	107	110	110
Northern Ireland	328	412	403	293	336	276	191	160	150
Chancellor's departments	-9	-8	-7	-7	-7	-7	-7	-10	
Other departments ⁽²⁾	-4	7	-5						
Total other public corporations	966	1,132	925	708	533	566	795	950	1,020
Total public corporations	3,207	4,887	2,580	1,001	721	653	655	490	430

(1) See footnotes to Table 21.1.3. In this table all the Post Offices' EFL is shown against Trade and Industry.

(2) See footnotes to Table 21.1.1

(3) Details of individual public corporations included in this table are shown in Table 21.3.1 in section 3 of this chapter.

Public expenditure by function

UK functional analysis

1.32. The territorial coverage of departmental expenditure varies. For example, the Department of Social Security is responsible for social security benefits for Great Britain as a whole (but not Northern Ireland), whereas the Department of Education and Science covers local authority spending on schools in England only. To produce a picture of the spending of Government on its different functions or services in the UK as a whole **Table 21.1.7** allocates to the appropriate function the expenditure for which the respective Secretaries of State are responsible in Scotland, Wales and Northern Ireland. "Miscellaneous expenditure" includes the activities required for the general maintenance of government, such as tax collection, and the registration of the population.

Table 21.1.7 Planning total by function

	£ million								
	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
Defence									
Defence budget	15,473	17,109	17,931	18,173	18,862	19,746	19,968	20,570	21,070
Finance for public corporations	4	87	36	-12					
Nationalised industries' external finance	6	6	-2						
Total defence	15,483	17,202	17,965	18,161	18,862	19,746	19,968	20,570	21,070
Overseas services, including overseas aid									
Overseas aid	1,029	1,091	1,122	1,178	1,210	1,306	1,376	1,420	1,460
Contributions to European Communities	836	974	822	1,079	1,664	800	1,470	1,320	1,350
Other overseas services	617	668	685	722	751	831	839	860	880
Finance for public corporations	41	42	34	24	-1	31	29	30	30
Total overseas services, including overseas aid	2,523	2,775	2,663	3,002	3,624	2,967	3,714	3,630	3,720
Agriculture, fisheries, food and forestry									
Market regulation and production support	1,368	1,368	1,854	1,180	1,409	1,552	1,668	1,820	1,870
Structural measures for agriculture	354	342	305	261	222	254	269	280	290
Animal health	16	15	16	16	16	18	19	20	20
Other agriculture and food services including commissioned research and development	122	146	146	140	142	180	177	170	170
Support for the fishing industry	37	38	48	52	51	50	46	50	50
Arterial drainage, flood and coast protection (excluding Water Authorities)	178	159	158	186	193	202	199	200	210
Departmental research, advisory services and administration	249	256	270	286	289	324	328	340	350
Forestry	62	61	58	57	59	66	70	70	70
Regional Water Authorities' external finance	31	25	16	13	19	20	18	20	20
Finance for public corporations	-1	-1	-1	-1	-17				
Total agriculture, fisheries, food and forestry	2,417	2,409	2,870	2,191	2,382	2,666	2,793	2,970	3,040
Trade, industry, energy and employment									
Regional and general industrial support	898	948	919	1,005	728	947	911	900	920
Scientific and technological assistance	557	617	622	617	580	659	659	690	680
Support for aerospace, shipbuilding, coal, steel and vehicle manufacture	466	398	764	1,540	455	962	383	290	300
Trade	384	687	506	449	298	343	329	300	310
Employment	1,634	1,739	1,875	2,188	2,065	1,733	2,026	2,070	2,120
Training	1,116	1,215	1,325	1,501	1,645	2,300	2,075	2,080	2,130
Departmental administration and other services	382	414	379	439	467	519	517	530	540
Finance for public corporations	228	255	251	158	205	213	212	210	220
Nationalised industries' external finance	1,150	2,712	376	-722	-486	-620	-892	-1,210	-1,240
Total trade, industry, energy and employment	6,816	8,985	7,016	7,176	5,956	7,055	6,220	5,860	5,980

1 Additional analysis

Arts and libraries									
Museums and galleries	185	205	223	237	247	277	279	290	290
Other arts and heritage	109	121	125	158	170	181	187	190	190
Libraries	461	487	517	556	612	638	642	660	680
Administration	5	5	6	5	7	2	2		
Total arts and libraries	759	818	871	957	1,035	1,098	1,109	1,150	1,170
Transport									
National road systems									
<i>Current</i>	150	167	172	191	180	184	192	200	200
<i>Capital</i>	893	930	939	974	1,119	1,155	1,194	1,240	1,280
Local roads									
<i>Current</i>	1,124	1,154	1,215	1,267	1,413	1,487	1,616	1,660	1,710
<i>Capital</i>	631	640	729	764	731	889	868	890	910
Local transport									
<i>Current</i>	948	995	809	925	872	909	867	890	920
<i>Capital</i>	354	399	197	127	174	108	118	120	120
Ports	102	100	54	31	28	15	12	10	10
Shipping and civil aviation services	47	49	57	60	59	80	83	80	90
Driver and vehicle licensing	93	94	100	104	116	121	124	130	130
Other transport services	201	223	236	250	266	310	295	300	300
Finance for public corporations	19	21	21	22	21	19	19	20	20
Nationalised industries' external finance	723	772	1,073	957	674	908	858	840	860
Total transport	5,285	5,544	5,603	5,673	5,653	6,185	6,246	6,380	6,540
Housing									
Central government subsidies to									
local authority housing	355	411	485	591	525	525	551	580	590
Other general subsidies	782	725	668	617	643	584	584	600	610
Administration	184	188	214	238	276	270	268	280	290
Local authority gross capital expenditure									
Local authority receipts	-1,983	-1,880	-1,842	-2,122	-2,469	-2,232	-2,165	-2,160	-2,210
Other capital	816	803	769	774	831	827	859	910	940
Finance for public corporations	424	465	485	431	404	445	524	560	570
Total housing	4,366	4,396	4,051	3,948	3,942	4,229	4,199	4,250	4,360
Other environmental services									
Local environmental services	3,490	3,640	3,718	3,929	3,789	4,222	4,054	4,170	4,280
Urban programme	213	247	256	251	267	320	317	320	330
Other	551	597	618	684	754	774	749	760	780
Nationalised industries' external finance									
Finance for public corporations(1)	359	304	235	138	61	13	-16	-40	-40
Finance for public corporations(1)	164	155	92	45	-64	34	167	200	210
Total other environmental services	4,777	4,944	4,920	5,047	4,806	5,365	5,271	5,420	5,560
Law, order and protective services									
Administration of justice									
The penal system	831	909	995	1,078	1,185	1,263	1,350	1,400	1,430
Police	3,063	3,481	3,477	3,764	4,231	4,586	4,665	4,800	4,920
Immigration and citizenship	60	65	67	75	72	97	99	100	100
Fire	688	736	785	851	953	992	954	980	1,010
Civil defence	62	68	70	75	75	101	102	100	110
Community services	23	23	24	26	27	29	28	30	30
Central and miscellaneous services	155	165	180	235	279	343	348	360	370
Total law, order and protective services	5,433	6,090	6,305	6,873	7,707	8,486	8,679	8,960	9,180

Education and science									
Local authority schools									
Current									
Primary schools	3,327	3,440	3,630	4,074	4,585	5,049	5,122	5,340	5,480
Secondary schools	4,535	4,682	4,806	5,301	5,764	6,145	6,277	6,440	6,600
Special schools and schools support services	1,482	1,531	1,559	1,717	1,820	1,913	1,835	1,860	1,910
Capital	370	353	361	372	403	451	427	440	450
Central government schools									
Current	242	264	271	332	367	410	462	470	490
Capital	42	49	58	57	68	102	91	100	100
Universities Funding Council									
Current	1,222	1,253	1,283	1,320	1,468	1,585	1,643	1,680	1,720
Capital	103	107	118	130	129	135	136	140	140
Polytechnics and colleges funding council									
Current							972	1,010	1,030
Capital							33	30	30
Other central government further and higher education									
Current	436	443	467	496	527	558	500	510	520
Capital	30	32	36	47	49	47	43	50	50
Local authority further and higher education									
Current	1,904	2,026	2,076	2,208	2,391	2,579	1,717	1,730	1,770
Capital	127	133	141	151	108	67	44	40	50
Student awards and fees	915	938	914	928	1,003	1,025	1,074	1,100	1,130
Miscellaneous educational services, research and administration									
Science	1,138	1,192	1,269	1,380	1,492	1,629	1,619	1,690	1,730
	504	534	570	599	658	699	729	730	750
Total education and science	16,377	16,979	17,559	19,112	20,831	22,394	22,724	23,370	23,960
Health and personal social services									
Health									
Hospital and community health services									
	11,618	12,333	13,002	13,876	15,200	16,618	16,659	17,300	17,730
Family practitioner services	3,427	3,764	3,986	4,282	4,753	5,169	5,466	5,880	6,030
Central health and other services	508	576	645	710	734	808	825	850	880
Total health	15,553	16,672	17,633	18,868	20,687	22,595	22,951	24,030	24,630
Personal social services									
Local authority services	2,630	2,799	2,922	3,222	3,613	3,955	3,818	3,930	4,030
Central government services	115	121	126	131	142	148	154	160	160
Total personal social services	2,745	2,920	3,048	3,353	3,755	4,102	3,972	4,090	4,190
Finance for public corporations	13	23	23	27	12	10			
Total health and personal social services	18,310	19,615	20,704	22,248	24,454	26,707	26,923	28,120	28,830
Social security									
Pension benefits (contributory)									
Widows' benefits	15,038	15,712	17,057	18,272	19,169	19,863	21,042	22,100	22,600
	799	813	829	855	870	902	905	900	900
Unemployment, incapacity and other benefits									
Industrial injury benefits	3,801	4,168	4,398	4,788	4,819	5,053	5,244	5,600	5,700
Family benefits (contributory)	440	454	484	520	529	516	527	500	600
Pension benefits (non-contributory)	148	169	171	176	55	46	49	100	100
War pensions	50	48	52	56	49	55	56	100	100
Disability benefits	524	544	581	589	599	592	605	600	600
Income Support / Social Fund(2)	1,030	1,225	1,439	1,740	2,139	2,113	2,297	2,500	2,500
Family benefits (non-contributory)	5,871	6,743	7,751	8,307	8,336	9,085	9,677	10,200	10,400
Housing benefits	4,397	4,717	4,934	5,027	5,137	5,332	5,561	5,700	5,900
Administration and miscellaneous services	2,645	3,055	3,378	3,639	3,903	4,308	4,439	4,700	4,800
	1,525	1,650	1,698	1,839	2,101	2,245	2,300	2,400	2,400
Total social security	36,267	39,298	42,772	45,810	47,705	50,110	52,701	55,200	56,600

1 Additional analysis

Miscellaneous expenditure									
Other public services	1,819	1,987	2,118	2,335	2,577	2,800	2,961	3,070	3,180
Common services	906	997	1,101	1,243	1,363	1,431	1,573	1,640	1,600
Finance for public corporations	-14	-1	-12	-7	-7	-7	-7	-10	-10
Total miscellaneous expenditure	2,712	2,982	3,207	3,570	3,934	4,225	4,527	4,700	4,820
Local authority current expenditure not allocated to programmes									
							41	40	40
Total of above	121,525	132,038	136,505	143,768	150,890	161,232	165,115	170,670	174,890
Reserve									
Privatisation proceeds	-1,139	-2,171	-2,707	-4,460	-5,161	-4,995	7,000	10,500	14,000
Adjustment(3)							-5,000	-5,000	-5,000
Planning total	120,386	129,867	133,797	139,308	145,730	156,237	167,115	176,200	183,900

(1) Includes expenditure on Urban Development Corporations.

(2) Replaced Supplementary Benefit with effect from 1 April 1988.

(3) See paragraph 1.17(iii)

Territorial analysis

1.33. More detailed information on public spending in each of the four countries of the United Kingdom was published in Hansard on 25 October 1988 (OR,120-129). This analysis, covering the period 1983-84 to 1987-88, allocates expenditure to England, Scotland, Wales or Northern Ireland. Such expenditure is termed "identifiable expenditure" and is defined as that expenditure which can be identified from official records as having been incurred in a particular country. As such it includes within the territories a wider coverage of expenditure than that for which the Secretaries of State for Scotland, Wales and Northern Ireland are directly responsible. Identifiable expenditure excludes expenditure on defence, overseas aid and other overseas services which are deemed to have been incurred on behalf of the United Kingdom as a whole. It also excludes Government net lendings to, and the market and overseas borrowing of, the public corporations (including nationalised industries) due to the difficulty of allocating this finance to expenditure in a particular country.

1.34. The data published in Hansard are not consistent with other figures in this White Paper because they do not incorporate the very latest information but they do provide an indication of the territorial coverage of expenditure on each main function. The two following tables have been reproduced from the data in Hansard; they summarise public expenditure by territorial area for the years 1983-84 to 1987-88 (Table 21.1.8) and territorial expenditure by function in 1987-88 (Table 21.1.9).

Table 21.1.8 Identifiable public expenditure⁽¹⁾ by territorial area

	1983-84	1984-85	1985-86	1986-87	1987-88
£ million					
England	76,944	82,388	86,845	92,386	97,783
Scotland	10,793	11,356	12,022	12,886	13,678
Wales	5,231	5,441	5,733	6,338	6,722
Northern Ireland	3,785	4,051	4,315	4,604	4,878
Total	96,753	103,237	108,914	116,214	123,061
£ per head					
England	1,642	1,755	1,843	1,955	2,063
Scotland	2,096	2,207	2,340	2,516	2,676
Wales	1,863	1,938	2,039	2,247	2,370
Northern Ireland	2,452	2,613	2,770	2,938	3,097
Total	1,717	1,829	1,924	2,047	2,162

⁽¹⁾ See paragraph 1.33.

Table 21.1.9 Planning total by territorial area and function, 1987-88

							£ million	
	Identifiable public expenditure ⁽¹⁾					Total	Non identified	United Kingdom
	England	Scotland	Wales	Northern Ireland				
Defence							18,662	18,662
Overseas services							3,611	3,611
Agriculture, fisheries, food and forestry	685	227	90	167	1,169	1,239	2,408	2,408
Trade, industry, energy and employment	3,698	760	466	371	5,295	783	6,078	6,078
Arts and libraries	667	85	38	(2)	790	220	1,010	1,010
Transport	4,821	628	404	131	5,984	-323	5,661	5,661
Housing	2,536	671	211	237	3,656	114 ⁽³⁾	3,769	3,769
Other environmental services	3,676	674	322	232	4,904	101	5,006	5,006
Law, order and protective services	5,218	630	263	593	6,704	1,056	7,760	7,760
Education and science	16,601	2,442	1,041	787 ⁽²⁾	20,871	111	20,982	20,982
Health and personal social services	19,677	2,696	1,257	812	24,443	12	24,455	24,455
Social security	38,661	4,562	2,501	1,465	47,189	511	47,699	47,699
Other public services	1,558	301	126	81	2,067	551	2,618	2,618
Common services	-16	2	4	1	-10	1,357	1,346	1,346
Privatisation proceeds						-5,108	-5,108	-5,108
Planning total	97,783	13,678	6,722	4,878	123,061	22,896	145,958	145,958

⁽¹⁾ See paragraph 1.33.⁽²⁾ Expenditure on arts and libraries in Northern Ireland is contained in the education and science category.⁽³⁾ Unidentified expenditure for housing is entirely made up of Government net lending to the Northern Ireland Housing Executive.

Public expenditure by economic category

1.35. The economic significance of components of public spending depends on their nature, for example whether they are transfer payments or expenditure on goods and services, current or capital. The public expenditure figures can be disaggregated into a number of economic categories. For the purposes of this White Paper seven aggregates have been drawn from this detailed material:

(i) **Public service pay** - the pay and pension costs of public sector employees;

(ii) **Other current expenditure on goods and services** - including general administrative expenses and purchases of other goods and services which are not of a capital nature;

(iii) **Subsidies** - payments to producers designed to reduce their prices;

(iv) **Current grants to persons** - including social security benefits and grants towards the current expenditure of non-profit making bodies outside the public sector;

(v) **Net capital expenditure on assets** - comprising expenditure on new construction, the purchase of land, buildings and other physical assets less the proceeds from their sales;

(vi) **Capital grants** - to the private sector, nationalised industries and other public corporations;

(vii) **Lending and other financial transactions** - comprising net lending to the private sector and public corporations, cash expenditure on company securities (including as negative public expenditure the proceeds from the sale of shares in nationalised industries) and the market and overseas borrowing of public corporations.

1.36. The above economic category breakdown is shown for each spending authority in Table 21.1.10. It shows that the largest element is current grants to persons (£XX billion in 1988-89), mainly pensions and other social security payments. Public service pay (mainly in local authorities, the Armed Forces and the National Health Service) accounts for £XX billion, and other current expenditure on goods and services £XX billion.

Table 21.1.10 Planning total by spending authority and economic category

	£ million									
	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	
Central government⁽¹⁾										
Public service pay	19,827	20,772	22,067	23,602	25,521					
Other current expenditure on goods and services	18,621	21,078	21,977	22,712	24,308	53,592	57,578	60,511	63,056	
Subsidies	2,404	2,512	2,714	2,575	2,666	2,657	2,784	2,840	2,888	
Current grants to persons	38,936	42,002	45,595	49,189	50,867	51,525	55,648	59,584	62,387	
Net capital expenditure on assets	2,806	3,236	3,766	3,373	3,632	3,830	4,558	4,909	5,020	
Capital grants	2,349	2,312	2,269	2,323	2,123	2,881	2,300	2,264	2,234	
Lending and other financial transactions	168	206	91	952	237	515	543	558	486	
Total central government	85,111	92,118	98,478	104,726	109,354	115,000	123,411	130,665	136,071	
Local authorities⁽¹⁾										
Public service pay	18,176	19,238	20,126	21,988	24,451					
Other current expenditure on goods and services	5,515	5,844	5,969	6,352	6,868	33,778	34,105	35,243	36,238	
Subsidies	1,285	1,226	951	1,128	1,001	965	915	942	969	
Current grants to persons	3,580	3,928	4,158	4,434	4,730	4,933	5,878	6,344	6,787	
Net capital expenditure on assets	3,600	4,008	3,869	3,836	3,273	2,918	2,026	1,946	1,987	
Capital grants	1,255	1,036	687	642	723	719	737	691	640	
Lending and other financial transactions	-258	-357	-396	-457	-367	-231	-202	-223	-208	
Total local authorities	33,153	34,922	35,363	37,923	40,679	43,082	43,460	44,942	46,413	
Nationalised industries' external finance⁽¹⁾⁽²⁾										
Subsidies	1,855	2,693	2,130	1,719	1,821	1,175	1,018	945	883	
Capital grants	43	31	220	253	265	188	305	278	186	
Lending and other financial transactions	375	1,102	-641	-1,586	-1,818	-1,178	-1,372	-1,614	-1,564	
Total nationalised industries' external finance	2,274	3,827	1,709	386	268	184	-49	-391	-495	
Other public corporations⁽¹⁾⁽²⁾⁽³⁾										
(a) External finance										
Subsidies	248	285	275	214	233	246	248	241	247	
Capital grants	245	236	265	281	332	451	657	698	700	
Lending and other financial transactions	157	296	209	137	114	90	131	114	90	
(b) Expenditure										
Subsidies	219	211	159	157	150	154	103	105	105	
Net capital expenditure on assets	136	142	25	-71	-293	-384	-338	-202	-119	
Lending and other financial transactions	-40	-38	-9	-10	-2	8	-6	-5	-5	
Total other public corporations	966	1,132	925	708	533	566	795	952	1,019	
Planning total by economic category										
Public service pay	38,003	40,010	42,193	45,590	49,972					
Other current expenditure on goods and services	24,136	26,923	27,946	29,064	31,176	87,370	91,684	95,753	99,294	
Subsidies	6,012	6,926	6,230	5,793	5,871	5,197	5,067	5,073	5,093	
Current grants to persons	42,516	45,930	49,752	53,622	55,598	56,458	61,489	65,890	69,136	
Net capital expenditure on assets	6,542	7,386	7,660	7,138	6,612	6,364	6,245	6,652	6,889	
Capital grants	3,893	3,616	3,441	3,499	3,442	4,239	3,999	3,931	3,759	
Lending and other financial transactions	402	1,210	-746	-964	-1,836	-797	-905	-1,169	-1,202	
Reserve							3,500	7,000	10,500	
Privatisation proceeds	-1,139	-2,171	-2,707	-4,460	-5,136	-4,966	-4,984	-4,629	-4,842	
Adjustment ⁽⁴⁾										
PLANNING TOTAL	120,364	129,829	133,768	139,283	145,698	153,865	166,100	178,500	188,600	

(1) See footnotes to Table 21.1.3.

(2) Details of individual public corporations are given in Table 21.3.1 of section 3.

(3) For most public corporations it is their external finance that is included in the planning total. The split between economic categories for these are given in section (a). For a few corporations their capital expenditure and subsidies to them are included in the planning total. The split between economic categories for these is given in section (b).

(4) See paragraph 1.19 (iii).

Public sector capital spending

1.37. The figures in Table 21.1.10 on net capital expenditure on assets include purchases (net of sales) of land and existing buildings, vehicles, plant and machinery, and expenditure on construction. These elements together form what is called "gross domestic fixed capital formation" in the national accounts. However this does not provide a complete measure of the extent to which the public sector is either helping to renew or increase the nation's stock of physical assets. This is provided by a wider definition of public sector capital spending, which is obtained by making the following adjustments to gross domestic fixed capital formation;

- (i) Add the capital expenditure of nationalised industries and other public corporations.
- (ii) Deduct the purchase and sale of land and existing buildings, of which council house sales are by far the largest component, since such expenditure and receipts do not affect the nation's stock of physical assets.
- (iii) Use the NATO definition of defence capital expenditure, for which only provisional figures are available for the later years, rather than the conventional definition. The NATO definition of capital spending covers equipment (excluding ammunition) and construction but excludes spares and repair and maintenance. It gives a broad indication of expenditure of a capital nature as opposed to operating costs.
- (iv) Add capital grants to the private sector. These help to finance the private sector's renewal or creation of physical assets.

1.38. The relationship between gross domestic fixed capital formation and public sector capital spending is set out in Table 21.1.12. This table starts by showing general government gross domestic fixed capital formation and goes on to show in more detail the adjustments necessary to derive public sector capital spending.

1.39. Table 21.1.12 shows the main contributions to this wider concept of public sector capital spending. The main contributions come from defence, housing, transport, health and the nationalised industries. Total public sector capital spending is expected to rise from £22 billion in 1988-89 to nearly £XX billion in 1991-92. Compared with the plans in last year's White Paper, extra capital spending of about £X½ billion is expected in both 1989-90 and 1991-92. The increases expected are £X.X billion and £X.X billion for central government, £X.X billion and £X.X billion for local authorities and £X.X billion and £0.9 billion for public corporations.

1.40. Table 21.1.11 like Table 21.1.12, omits spending by nationalised industries that have been or are being privatised. (The exclusion of these industries provides a consistent series; aggregate spending by the public sector in 1988-89 and earlier years is understated as a result.) Capital spending by the nationalised industries omitted from the tables is shown as a footnote in Table 21.1.11.

1.41. Tables 21.1.11 and 21.1.12 also exclude projects which the Government has decided should be financed and executed by the private sector but which would otherwise have been carried out by the public sector. The main project of this nature due to start in the coming year is the M25 Dartford Bridge.

1.42. It should be noted that both Table 21.1.11 and Table 21.1.12 exclude purchases of spares, and repair and maintenance work. However, estimates of repair and maintenance work are available from the Department of Environment (DOE), using their statistics for output by the construction industry. DOE's coverage of the industry, and the definitions used, are not strictly comparable to those used in this White Paper. For example, in the DOE series, housing

improvement work is excluded from capital construction. But the figures do give some indication of the increasing importance of repair and maintenance work in the public sector. They show that in 1979 about £4 billion was spent on repairing and maintaining the public sector capital stock. Expenditure has been steadily increasing, and it is estimated that in 1986 the public sector spent over £7 billion on repair and maintenance, including housing improvements.

Table 21.1.11 Public sector capital spending(1) by spending authority and department

	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
£ million									
Central government									
Defence	4,715	5,360	5,642	5,434	5,914	5,898	6,000	6,300	6,600
Foreign and Commonwealth Office ⁽²⁾	12	13	13	18	28	35	35	31	50
Ministry of Agriculture Fisheries and Food ⁽²⁾	149	136	108	78	84	93	91	115	118
Trade and Industry ⁽²⁾	418	450	367	431	332	973	423	389	333
Energy	41	45	29	12	6	14	8	2	1
Employment	48	57	58	58	68	97	96	98	92
Transport	638	711	738	775	889	947	1,201	1,302	1,344
DOE - Housing	884	825	794	727	771	751	716	709	728
DOE - Other environmental services ⁽²⁾	44	51	62	65	81	90	144	159	173
Home Office and legal departments ⁽²⁾	126	146	177	197	220	313	395	393	397
Education and Science	237	249	286	298	311	368	453	445	451
Arts and Libraries	15	17	25	27	44	59	70	72	80
Department of Health	731	830	912	992	1,012	1,049	1,081	1,116	1,140
Department of Social Security	23	21	48	77	98	150	268	289	219
Scotland	573	595	585	625	555	597	524	558	565
Wales	331	305	298	349	339	375	411	422	423
Northern Ireland	300	326	363	384	369	386	422	414	403
Chancellor's departments ⁽²⁾	19	37	78	117	139	144	154	173	160
Other departments ⁽²⁾	168	212	194	195	176	112	105	95	98
Total central government	9,470	10,388	10,775	10,859	11,435	12,451	12,598	13,084	13,375
Local authorities									
Transport	764	814	669	606	590	629	697	695	708
DOE - Housing	2,877	2,890	2,492	2,506	2,645	3,015	2,946	2,602	2,473
DOE - Other environmental services	801	993	933	1,043	1,081	1,289	964	780	777
Home Office and legal departments ⁽²⁾	157	163	181	199	225	230	209	212	217
Education and Science	457	481	518	550	546	503	441	452	463
Department of Health	86	95	102	108	116	131	119	120	122
Territories	1,323	1,210	1,220	1,347	1,595	1,606	1,565	1,565	1,607
Other	120	111	105	94	85	87	66	68	72
Total local authorities	6,585	6,756	6,219	6,454	6,883	7,489	7,007	6,492	6,439
Public corporations⁽³⁾									
Electricity	1,847	1,737	1,648	1,597	1,516	1,851	1,777	2,028	
British Rail	224	341	400	427	391	461	634	681	861
Water	804	764	847	1,014	1,042	1,218	1,437		
Other nationalised industries	863	568	1,029	970	958	1,033	1,298	1,350	1,238
Other public corporations	977	1,017	998	1,013	1,034	1,238	1,301	1,297	1,288
Total public corporations	4,715	4,427	4,921	5,021	4,941	5,800	6,447	(5)	(5)
Total public sector capital spending	20,769	21,571	21,915	22,334	23,258	25,741	26,052	(5)	(5)
Real terms ⁽⁴⁾ (base year 1987-88)	25,019	24,733	23,841	23,513	23,258	24,227	23,352	(5)	(5)

The figures for 1989-90, 1990-91, and 1991-92 make no allowance for allocations to capital spending from the Reserve.

(1) See Table 21.1.12 and paragraph 1.31 for the definition of public sector capital spending.

(2) See footnotes to Table 21.1.1

(3) Excluding those industries that have been, or are being, privatised.

(4) Real terms figures are the cash outturns or plans adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator.

(5) No totals have been given because the privatisation of the water and electricity industries in 1990-91 and 1991-92 respectively means that the figures for those years and earlier years would not be on a consistent basis. If the figures for water and electricity are excluded throughout the profile for capital spending is as follows:

18,118 19,070 19,420 19,723 20,700 22,672 22,838 22,944 23,201

Table 21.1.12 Public sector capital spending

	£ million								
	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
General government gross domestic fixed capital formation									
Purchases of land and existing buildings (net of sales)	-1,792	-1,810	-1,817	-2,228	-3,102	-4,164	-4,534	-4,112	-4,054
Construction(1)									
Housing - new dwellings and improvements	1,871	2,033	1,923	2,006	2,142	2,454	2,358	2,057	1,951
Transport	1,147	1,267	1,280	1,276	1,376	1,486	1,801	1,895	1,942
Other	3,615	3,966	4,068	4,244	4,728	5,112	5,147	5,109	5,187
Purchases of vehicles, plant and machinery (net of sales)	1,388	1,489	1,557	1,841	1,808	1,919	1,857	1,848	1,830
General government gross domestic fixed capital formation	6,229	6,946	7,011	7,198	6,953	6,806	6,629	6,797	6,856
Adjustments to derive public sector capital spending									
Replace defence capital expenditure with that consistent with the NATO definition (1)									
deduct - capital expenditure included above	238	293	362	421	444	485	528	565	576
add - construction(1)	484	603	688	726	714	732	6,000	6,300	6,600
add - equipment	4,231	4,757	4,950	4,705	5,200	5,166			
Add nationalised industries' and public corporations' capital spending on assets(3)									
add - expenditure on dwellings	324	330	294	249	242	266	218	(4)	(4)
add - construction(1)	1,899	1,671	1,575	1,647	1,563	1,839	2,311	(4)	(4)
add - purchases of vehicles plant and machinery	2,428	2,343	2,969	3,034	3,046	3,601	3,799	(4)	(4)
Adjustment to spending on assets									
deduct - purchases of land and existing buildings (net)	-1,792	-1,810	-1,817	-2,228	-3,102	-4,164	-4,534	-4,112	-4,054
deduct - sales of vehicles, plant and machinery	-12	-18	-25	-34	-40	-38	-36	-35	-36
Total capital spending on assets	17,161	18,185	18,966	19,340	20,416	22,127	22,999	(4)	(4)
Capital grants to private sector									
by general government	3,544	3,304	2,866	2,903	2,753	3,530	2,947	2,897	2,843
by public corporations	63	82	84	91	89	95	120	114	117
Total capital spending on assets plus capital grants to the private sector	20,769	21,571	21,915	22,334	23,258	25,741	26,052	(4)	(4)

The figures for 1989-90, 1990-91 and 1991-92 make no allowance for allocations to capital spending from the Reserve.

(1) The figures for 1989-90 and subsequent years include VAT on new construction which ^{will} ~~be~~ to be zero-rated from 1 April 1989.

(2) The figures for 1988-89 and subsequent years are provisional.

(3) The capital expenditure figures exclude those nationalised industries which have been, or are being, privatised. The total figures for the industries involved in the years 1983-84 to 1988-89 are £2,770 million, £3,130 million, £2,290 million, £1,080 million, £610 million, and £40 million respectively. However, the figures for nationalised industries do include expenditure by London Regional Transport from 1985-86.

(4) See footnote 5 to Table 21.1.11

Table 21.1.13 Public sector capital spending⁽¹⁾ : differences from previous White Papers⁽²⁾ £ million
by spending authority and department.

	Differences from plans presented in:			
	1987 White Paper (Cm 56)		1988 White Paper (Cm 288)	
	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans
Central government	228	1,022	310	380
<i>Of which:</i>				
Defence	-142	0	0	0
Transport	22	30	13	50
DOE-Housing	43	76	50	46
Health	73	19	46	0
Territories	104	121	0	20
Local authorities	753	247	-60	-70
<i>Of which:</i>				
Transport	-44	36	0	0
DOE-Housing	50	50	0	0
DOE-Other environmental services	319	27	-10	-20
Territories	225	109	0	10
Public corporations⁽³⁾	245	-2	-70	-80
<i>Of which:</i>				
Electricity	110	0	0	0
Water	63	0	0	0
Other nationalised industries	53	0	0	0
Other public corporations	19	-2	-70	-80
Total spending authorities	2,121	1,733	209	256

The figures for 1989-90, 1990-91 and 1991-91 make no allowance for allocations to capital spending from the Reserve.

⁽¹⁾ See Table 21.1.11 and paragraph 1.36 for the definition of public sector capital spending

⁽²⁾ After adjustment of previous plans to the definition and classifications used in this White Paper

⁽³⁾ Excluding those industries that were privatised before 1989-90.

1.43. Text on Table 21.1.13.

Government spending on science and technology

1.45. In recent years the Government has strengthened its central arrangements for improving the contribution of government-funded research and development and other support for science and technology to the efficiency, competitiveness and innovative capacity of the United Kingdom. One component of the strengthened central structure is collective Ministerial consideration of science and technology priorities.

1.46. Provision for each department's support for science and technology is summarised in Table 21.1.14. Details of past expenditure and future plans will continue to be published in the Annual Review of Government Funded Research and Development.

1.47. The figures in Table 21.1.14, like those in the Annual Review of Government Funded Research and Development, are based on provision for research and development on the "Frascati" definition which is the internationally adopted basis for statistics on research and development. In accordance with "Frascati", some of the research covered is in the humanities and social sciences. Details of the "Frascati" definitions are given in the OECD publication "The Measurement of Scientific and Technical Activities (The Frascati Manual)". To the Frascati figures have been added provision for support for technology transfer, a key element in increasing the economic return for publicly funded research and development: this includes certain advisory services and technology demonstration projects because of their importance for the application of research and development in the private sector.

1.48. The largest departmental programmes include the Ministry of Defence, mainly for the research, development, testing and evaluation of equipment for the Armed Services, the Department of Trade and Industry and the Ministry of Agriculture, Fisheries and Food. The Department of Education and Science figures reflect funding for the Research Councils and support of research in universities through block grants allocated on the advice of the University Grants Committee (UGC). The figures for universities are based on a notional attribution of universities' departmental and central expenditure between research and other activities (including teaching) in the light of past surveys. The Department of Energy figures include the research and development work done by the United Kingdom Atomic Energy Authority (UKAEA) financed by the Department of Energy. The UKAEA obtains other income from a number of sources including other government departments and the electricity generating boards. The figures do not include research and development by the nationalised industries.

1.49. Table 21.1.14 shows that the total amount spent on research, development and technology transfer has increased from £X.X billion in 1983-84 to £X.X billion in 1988-89 and is planned to increase further to £X.X billion in 1989-90 and to remain broadly level thereafter. The provision for 1989-90 and 1990-91 has been increased since the last White Paper by some £XXX million in each year. This reflects mainly increased provision for basic and long term strategic research by the Universities and Research Councils. The DES science budget will as a result grow by 16 per cent between 1988-89 and 1989-90.

1.50. Provision for civil science and technology in the later years reflects, in particular, the pattern of commitments for launch aid spending by the Department of Trade and Industry.

Table 21.1.14 Government spending on science and technology by department⁽¹⁾⁽²⁾

	£ million									
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	plans	
Departments										
Defence	1,984	2,176	2,341	2,332	2,421	2,354	2,545	2,504	2,552	
Foreign and Commonwealth Office ⁽³⁾	21	21	24	27	32	34	34	40	40	
Ministry of Agriculture, Fisheries and Food ⁽³⁾	152	158	159	165	155	165	164	160	160	
Trade and Industry ⁽³⁾	400	436	458	462	417	516	525	490	420	
Energy (including United Kingdom Atomic Energy Authority) ⁽⁴⁾	243	237	227	193	184	211 ⁽⁴⁾	219	190	160	
Employment	15	15	18	21	22	24	25	30	30	
Transport	30	33	28	28	30	31	33	30	40	
Environment	32	38	46	59	64	68	72	70	70	
Home Office and legal department ⁽³⁾	12	13	14	14	16	16	17	20	20	
Education and Science (including Research Councils and University Funding Council)	1,195	1,240	1,324	1,409	1,500	1,580	1,739	1,770	1,800	
Arts and Libraries	10	11	11	11	13	13	14	20	20	
Health	28	26	27	31	34	37	38	40	40	
Social Security										
Scotland	55	59	60	60	58	62	62	60	60	
Northern Ireland	15	11	14	17	18	21	22	20	20	
Other departments ⁽³⁾⁽⁶⁾	5	4	4	8	5	5	6	10	10	
Total	4,196	4,477	4,754	4,838	4,970	5,139	5,511	5,430	5,440	
<i>Of which:</i>										
<i>Civil science and technology</i>	<i>2,212</i>	<i>2,301</i>	<i>2,413</i>	<i>2,506</i>	<i>2,549</i>	<i>2,785</i>	<i>2,966</i>	<i>2,930</i>	<i>2870</i>	

The figures for 1989-90, 1990-91 and 1991-92 make no allowance for allocations to science and technology programmes from the Reserve.

⁽¹⁾ It should be noted that the figures provide for the full costs of employing staff and include, for example, the notional superannuation costs of employing civil servants.

⁽²⁾ These figures are based on an internationally accepted definition of research and development (the "Frascati" definition) plus technology transfer expenditure. In accordance with the "Frascati" definition, some of the research covered is in the humanities and social sciences. This amounts to some £260 million in 1986-87, of which around £90 million was in the humanities and around £170 million in the social sciences.

⁽³⁾ See footnotes to Table 21.1.1.

⁽⁴⁾ The Energy figures differ from those given in the table and text of the Department of Energy's chapter of this White Paper because they exclude certain programmes classed as research and development which are not within the "Frascati" definition.

⁽⁵⁾ Some £20 million of this expenditure represents accounting changes to include a technical adjustment to the timing of payments made to the UKAEA by the Department of Energy (see Chapter 6 of Volume II) and payments to the UKAEA by the EC.

⁽⁶⁾ Including Wales.

Running costs

1.51. Departments' current expenditure on personnel, goods and other services used in their own administration has since 1986-87 been defined as running costs. These are normally controlled gross, in order to display true costs and to encourage proper management control. However, for activities whose costs are fully met by receipts, exemption from gross control may be agreed where suitably robust monitoring and management systems are developed.

1.52. For 1986-87 and 1987-88 Civil Service resources were controlled both through running costs and manpower targets set for the beginning of each financial year. As reported in paragraph 40 of Chapter 2 of Volume 1 of last year's White Paper, manpower targets are not being set after 1 April 1988 though the Government retains a close interest in the trend of Civil Service numbers and will monitor manpower on the basis of plans (see Table 21.1.17).

1.53. Last year, as described in paragraph 42 of Volume 1 of Chapter 2 of last year's White Paper, departments were required to prepare three-year management plans reflecting a commitment to deliver

progressive efficiency gains benefiting the cost and the value of the services and equal in cash terms to at least 1½ per cent each year of their running costs. Agreed three-year management plans are associated with three-year running costs settlements, and the delivery of efficiency improvements will be monitored in future Surveys. The majority of departments now have agreed management plans and firm three-year running costs settlements covering 1989-90, 1990-91 and 1991-92. For the remainder, the 1989-90 settlements are firm but later years' figures are provisional and will be reviewed in future Surveys. In all cases the provision for 1989-90 given in Table 21.1.15 is firm and represents the figures which will be translated into running costs limits when the Main Estimates are presented to Parliament. These limits will be published in the Summary and Guide to those Estimates.

1.54. Table 21.1.15 shows the individual departmental plans for gross running costs over the Survey period compared with the outturn for 1986-87 and 1987-88 and the estimated outturn for the current year. Between 1988-89 and 1989-90 the overall increase is /7.5/ per cent. The limits published in the Summary and Guide to the 1988-89 Estimates (Cm 328) and the Estimates for Services under the Government of Northern Ireland (published May 1988) showed a decrease of some £9 million on the 1988 White Paper plans due to minor policy and other changes. The table now shows total running costs net of all related receipts, as well as gross as before.

1.55. Changes in coverage since last year's White Paper are reflected in all years. Works maintenance at Service establishments has been taken out of the Ministry of Defence's running costs (-£510 million in 1988-89) to be consistent with the treatment of the pay of most servicemen, their equipment and general facilities. Four further areas have been exempted with effect from 1 April 1989 from gross running costs control (-£/32/ million). Further details of individual departmental plans for running costs are included in the relevant departmental booklet.

1.56. As announced in a Parliamentary reply of 31 March 1988, the Government is encouraging all departments to review the location of their work regularly and systematically, with a view to finding locations offering advantages in terms of labour markets, value for money (in terms of accommodation costs, etc) and operational efficiency. The Government will report periodically on departmental relocation reviews. It is already clear that most major departments have serious and substantial reviews in hand.

Table 21.1.15 Departmental running costs

	£ million					
	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans	1991-92 plans
Departments						
Defence(1)	5,173	5,196	5,408	5,407	5,541	5,680
Foreign and Commonwealth Office						
Foreign and Commonwealth Office	368	392	406	419	428	438
Overseas Development Administration	36	38	43	42	42	43
Ministry of Agriculture, Fisheries and Food						
Intervention Board for Agricultural Produce	10	13	15	15	16	16
Ministry of Agriculture, Fisheries and Food	207	215	237	261	279	292
Trade and Industry(2)	244	258	288	313	325	334
Energy	25	26	28	35	36	37
Employment Group						
Department of Employment	542	586	611	620	635	651
Advisory Conciliation and Arbitration Service	14	15	16	16	16	17
Health and Safety Commission/Executive	83	87	92	92	94	97
Training Commission	208	224	224	211	201	206
Total Employment Group	847	912	943	939	947	971
Transport	223	232	257	270	281	288
Environment						
Housing and other environmental services	143	153	162	162	166	171
Water Services Office						
Total Environment	143	153	162	162	166	171
Home Office and legal departments						
Home Office	708	785	807	830	849	871
Lord Chancellor's Department	177	196	214	238	252	272
Northern Ireland Court Services	10	11	11	10	11	11
Director of Public Prosecution and Crown Prosecution Service	47	73	108	119	122	125
Serious Fraud Office			5	5	5	6
Crown Office	15	17	19	19	19	20
Total Home Office and legal departments	958	1,082	1,164	1,222	1,259	1,304
Education and Science	55	58	66	68	70	71
Arts and Libraries	6	6	1	2	2	2
Health	196	190	222	226	232	237
Social Security	1,331	1,515	1,558	1,716	1,830	1,886
Scotland						
Scottish Office	160	176	195	199	207	213
Scottish Courts Administration	16	18	23	21	22	22
Scottish Records Office	2	2	2	2	2	2
Registrar General's Office Scotland	4	4	5	6	8	13
Department of the Registers of Scotland	10	11	13	12	13	13
Total Scotland	192	212	238	241	252	265
Wales	36	38	41	41	42	43
Northern Ireland(3)	434	479	509	506	518	531

1 Additional analysis

Chancellor's departments						
Central Office of Information	18	18	21	21	22	529
Customs and Excise	372	408	464	490	516	5
Registry of Friendly Societies	3	4	5	5	5	3
Government Actuary	2	2	2	3	3	3
Inland Revenue	924	1,011	1,081	1,175	1,230	1,291
National Investment and Loans Office	1	1	1	1	1	1
Department for National Savings	151	154	161	163	167	172
H M Treasury	63	66	71	75	78	80
Total Chancellor's departments	1,536	1,664	1,806	1,933	2,022	2,103
Other departments						
Office of the Minister for the Civil Service	24	27	29	31	31	34
Cabinet Office	18	18	20	21	21	22
Charity Commission	5	6	7	7	7	7
Ordnance Survey	49	53	56	56	57	57
Paymaster General's Office	13	14	15	16	17	18
Privy Council Office	1	1	1	1	1	1
Public Records Office	11	11	12	15	15	15
Office of Fair Trading	8	9	10	11	13	14
Office of Gas Supply		1	1	2	2	2
Office of Telecommunications	3	4	5	5	5	5
Office of Population Censuses and Surveys	25	26	30	32	44	45
Treasury Solicitor's Department	11	11	13	14	14	15
Property Services Agency(4)	103	93	133	132	136	140
Total other departments	272	274	331	344	364	374
Gross running costs total	12,294	12,955	13,724	14,161	14,653	15,087
Interdepartmental running costs payments	-150	-156	-192	-200	-204	-210
Running costs total	12,144	12,799	13,533	13,961	14,448	14,877
Other related receipts(5)	-2,297	-2,494	-2,652	-2,806	-2,906	-2,978
Running costs net of all related receipts	9,846	10,305	10,881	11,155	11,542	11,899

(1)Running costs coverage includes the pay of Armed Forces personnel only where they are engaged in headquarters and support activities (some 56,000).

(2)Excluding Export Credits Guarantee Department (ECGD). ECGD's running costs are met from trading income and are therefore not included in the public expenditure planning total. However, ECGD will be set a running cost limit as for other government departments. The planned figure for 1989-90 is £39 million compared with a 1988-89 estimated outturn of £39 million. Outturn for 1987-88 was £34 million.

(3)Figures cover both the Northern Ireland Office and the Northern Ireland Departments.

(4)Property Services Agency (PSA) running costs limits include additionally elements in respect of accommodation services shown above in the plans of other departments: for 1988-89 they include £7 million shown above under the Department of Environment.

(5)Payments for services provided from departmental running costs, eg fees for certain regulatory activities.

1.57. The latest outturn figures for the aggregate of all departments' running costs control totals are shown in line 1 of Table 21.1.16 below. But these figures do not include the gross cost of exempted activities. The table therefore also gives outturn figures for the gross cost of departmental administrative activities. These include exempted areas (which operate at zero net cost) and deduct only interdepartmental payments which would otherwise be scored twice. The four further areas exempted from 1 April 1989 are the Department of the Registers of Scotland, part of the Social Survey Division of the Office of Population Censuses and Surveys, the Vehicle and Components Approval Unit of the Department of Transport and the Nuclear Installations Inspectorate of the Health and Safety Executive. The Vehicle Inspectorate Executive Agency and the Companies House Executive Agency were already exempted when created in 1988 and some other areas of work being considered for agency status are under review for exemption.

Table 21.1.16 Gross administrative costs of government departments

	£ million	
	1986-87 outturn	1987-88 outturn
Sum of gross departmental running costs	12,294	12,955
Sum of gross cost of administrative activities exempted from running costs control	139	154
Interdepartmental payments scored twice above	-147	-154
Gross administrative costs of government departments	12,285	12,956

1.58. Trading Funds are not included in the table because their current expenditure does not score as public expenditure or running costs.

Public sector manpower

1.59. Table 21.1.17 provides a summary of public sector manpower (including the Armed Forces) from 1978-79. It also shows Civil Service manpower plans for the period 1989-90 to 1991-92. The figures for central government departments comprise all their permanent staff including those working in activities exempted from gross running costs control (separately identified in the relevant department booklets).

Civil Service

1.60. Between 1978-79 and 1987-88 Civil Service numbers fell by 148,000, a reduction of 20 per cent. The figures in Table 21.1.17 for the Civil Service take account of the changes in individual departmental plans since Cm 288. Significant increases have been agreed for the Home Office (to keep pace with new prisons and the expanding prison population) and the Land Registry (increased demand for conveyancing; to reduce backlogs). Other increases include extra staff for the Crown Prosecution Service (increasing workload and continuing recruitment up to full complement) and the Lord Chancellor's Department (to keep pace with the growing workload in the Crown and County Courts). The largest reductions have been provided by the Department of Social Security (due to the introduction of computer support services in local offices and the declining workload arising from lower unemployment), the Ministry of Defence (due to further measures, including contracting out, to improve efficiency), the Employment Group (due to the continuing reduction in benefit claimants) and the Ordnance Survey (efficiency measures to achieve the long term aim of full cost recovery).

1.61. The Government's earlier target for manpower numbers at 1 April 1988 was achieved, and control is now exercised through provision for running costs. Accordingly the figures shown in the table for 1989-90 to 1991-92 are indicative planning totals and not control limits. They are not directly comparable with the manpower figures for earlier years, which are of outturn. Actual staff numbers have tended to be lower than plans. The Government expects this tendency to continue.

Armed Forces

1.62. Armed Forces manpower in 1987-88 was almost ½ per cent higher than in 1978-79. However, numbers are expected to fall from 326,300 in April 1988 to / / in April 1990. This reflects the Government's aim of making more efficient use of the manpower needed to support the defence programme.

National Health Service

1.63 The number of whole time equivalent staff in post in the National Health Service in Great Britain has increased by 6 per cent since September 1978. At 30 September 1987 there were more front line staff than ever before - 14,000 more doctors and dentists,

26,000 more professional and technical staff, and 67,000 more nursing and midwifery staff than at 30 September 1978. Health authorities' initiatives and cost improvements continue to provide the means to improve the use of manpower.

Local authorities 1.64. Expenditure on manpower accounts for about three-quarters of local authorities' relevant current expenditure. Local authorities in Great Britain reduced staff numbers by 4 per cent between June 1979 and June 1982. Apart from people sponsored for the Community Programme, the total then remained broadly constant until 1986-87 since when numbers have been increasing. The numbers in education have fallen, as might be expected given the fall in school rolls, whereas the numbers of those employed on law and order have been increased in line with the Government's priorities in this area. Reports by the Audit Commission have demonstrated the importance of the better use of manpower in securing value for money improvements.

Public corporations 1.65. Numbers in this area have fallen by 52 per cent. Most of this is accounted for by a reduction in nationalised industries manpower. This reflects the effects of the privatisation programme (eg British Telecom and British Gas) and of increased productivity in those industries that remain in the public sector. The increase in other public corporations in 1987 reflected the deregulation of bus services which added to the staff employed by the Passenger Transport Executives.

Others 1.66 In manpower terms the most significant bodies in this category are the Northern Ireland Government Service and the Research Councils. Numbers have fallen by 4 per cent since 1978-79.

Table 21.1.17 Public sector manpower, 1978-79 and 1982-83 to 1991-92

	thousands, whole time equivalents										
	1978-79	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
	actual	actual	actual	actual	actual	actual	actual	estimated outturn	plans	plans	plans
Central government departments ⁽¹⁾											
Defence	226.1	193.9	185.8	177.6	171.8	167.4	148.9 ⁽²⁾	142.1	143.4	141.4	140.8
Foreign and Commonwealth Office	9.8	9.2	8.8	8.3	8.1	8.0	8.0	8.0	8.2	8.2	8.2
Overseas Development Administration	2.3	1.9	1.8	1.7	1.5	1.5	1.5	1.6	1.6	1.6	1.6
Ministry of Agriculture, Fisheries and Food	14.0	12.3	11.8	11.4	11.2	10.7	10.4	10.2	10.7	10.7	10.7
Intervention Board for Agricultural Produce	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9
Trade and Industry	17.1	14.8	13.5	12.6	12.6	12.6	12.6	12.5	12.8	12.7	12.6
Export Credits Guarantee Department	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.7	1.6	1.6
Energy	1.3	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.1	1.1	1.1
Employment	53.6	58.2	57.1	55.6	55.2	58.0	60.1	57.3	58.9	60.3	60.5
Transport	14.2	13.0	13.6	14.3	14.6	14.5	14.3	14.1	14.6	14.5	14.5
Department of the Environment	12.5	8.3	7.2	6.6	6.5	6.5	6.5	6.6	6.7	6.6	6.6
Home Office	33.3	34.8	35.8	36.5	37.0	37.6	38.2	40.1	43.0	44.6	46.9
Lord Chancellor's Department	10.6	10.2	10.2	10.1	10.2	10.2	10.4	10.7	11.0	11.2	11.3
Education and Science	3.7	3.5	2.9	2.4	2.4	2.4	2.5	2.6	2.6	2.6	2.6
Arts and Libraries					0.1	0.1	0.1	0.1	0.1	0.1	0.1
Department of Health	97.6	95.0	92.4	91.6	92.8	94.7	100.0	98.2	4.8	4.4	4.3
Department of Social Security									90.2	89.3	84.3
Scotland	12.8	12.4	12.0	11.9	12.0	12.0	12.0	12.0	13.0	13.1	12.9
Wales	2.5	2.2	2.2	2.2	2.3	2.3	2.2	2.2	2.2	2.2	2.2
Northern Ireland Office	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Customs and Excise	28.8	25.8	25.3	25.3	25.3	25.3	26.0	26.2	27.4	27.9	28.3
Inland Revenue	84.9	73.5	71.5	69.8	69.5	68.8	66.9	66.4	68.1	67.8	67.8
Chancellor's other departments	15.1	14.0	13.2	12.6	12.3	12.1	11.8	11.6	11.8	11.7	11.7
Property Services Agency	36.8	27.3	26.0	24.8	23.9	23.1	22.4	21.4	22.1	21.9	21.9
Other departments ⁽³⁾	19.1	16.6	16.5	17.0	17.4	19.7	21.7	23.0	28.1	28.6	29.7
Trading funds	34.8	26.9	25.3	25.2 ⁽⁴⁾	6.3 ⁽²⁾	6.3	6.1	5.9	5.7	5.6	5.6
Actual or planned civil service manpower⁽⁵⁾	734.0	657.6	636.4	621.2	596.7	597.5	586.1	576.4	590.8	590.9	589.2
Armed Forces ⁽¹⁾⁽⁶⁾	326.2	334.2	333.4	336.2	334.5	331.1	328.0	/327.7/			
National Health Service ⁽⁷⁾	923	1,007	1,006	995	989	981	978 ⁽⁹⁾				
Northern Ireland Departments (NI Civil Service) ⁽⁷⁾	28.4	26.2	25.5	25.0	25.1	25.2	25.2	25.1	25.1	25.2	24.9
Northern Ireland Office (NI Civil Service Group and Prison Service) ⁽⁷⁾	⁽⁸⁾	4.1	4.2	4.2	4.2	4.4	4.3	4.4	4.5	4.5	4.5
Other NI Government Service ⁽⁷⁾	115.6	119.7	121.3	118.8	115.7	119.3	118.2				
Research Councils ⁽⁹⁾	17	16	16	16	12	11	11				
Other central government ⁽⁹⁾	50	44	43	43	44	42	44				
Total central government manpower	2,194	2,209	2,186	2,159	2,121	2,112	2,095				
Local authorities community programme ⁽⁹⁾			22	45	52	66	72				
Local authorities (other non-trading) ⁽⁹⁾⁽¹⁰⁾	2,073	2,040	2,043	2,041	2,040	2,054	2,084				
Local authorities (trading) ⁽⁹⁾⁽¹⁰⁾	252	234	235	234	234	232	221				
Total local authority manpower	2,325	2,274	2,300	2,320	2,326	2,352	2,377				
Nationalised industries ⁽⁹⁾	1,843	1,538	1,444	1,396	1,124	1,049	856				
Other public corporations ⁽⁹⁾⁽¹¹⁾	203	185	185	181	115	112	120				
Total public sector manpower	6,565	6,206	6,115	6,056	5,686	5,625	5,448				

(1) Financial year averages

(2) Manpower for Royal Ordnance Factories excluded since incorporation as a Companies Act company in January 1985. Manpower for Royal Dockyards excluded since contractorisation in April 1987.

(3) Includes the Crown Estate Office, and the Crown Prosecution Service (from October 1986 onwards).

(4) Estimate for 1 October 1984.

(5) See paragraph 1.59.

(6) Including locally engaged personnel. Armed Forces' numbers beyond 1 April 1990 are subject to review.

(7) At 30 September.

(8) Separate figure not available.

(9) At 1 July.

(10) Including Northern Ireland.

(11) Includes United Kingdom Atomic Energy Authority.

NB. Manpower projections for future years are not included for local authorities, the National Health Service, public corporations and other

central government. The Government does not directly control manpower numbers in these areas. Its influence is exercised essentially through expenditure and financial controls.

Privatisation

1.67. In 1979, the state sector of industry accounted for 11½ per cent of GDP. Taking account of the weighting given to particular industries within this total, some 45 per cent of what was in the state sector of industry in 1979 has been transferred to the private sector. 19 major businesses have been privatised, transferring about 750,000 employees to the private sector. Privatisations include British Steel, Rover Group, BAA, Rolls Royce, Royal Ordnance, British Airways, British Gas, British Telecom, Jaguar, Enterprise Oil, Associated British Ports, Britoil, National Freight Consortium, Amersham International, British Aerospace and Cable and Wireless.

1.68. The privatisation programme has made a substantial contribution to the increase in share ownership among the public generally. Survey evidence suggests that at the beginning of 1988 there were 9 million adult shareholders, treble the number in 1979. 6 million people owned shares in privatised companies. 90 per cent of eligible employees have become shareholders in the companies they work for.

1.69. The momentum of the privatisation programme will be maintained in the next few years. The Government's central estimate of receipts in each of the years 1989-90, 1990-91 and 1991-92 is £5 billion. The major privatisations of this Parliament will be the Water and Electricity industries.

1.70. Table 21.1.18 gives a breakdown of privatisation proceeds from 1979-80 to 1988-89. Detailed estimates for future receipts from privatisation proceeds are not shown because they are dependent on commercially sensitive assumptions about further sales.

Table 21.1.18 Privatisation proceeds⁽¹⁾ 1979-80 to 1988-89

	£ million									
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
	outturn	outturn	outturn	outturn	outturn	outturn	outturn	outturn	outturn	estimated
										outturn
Amersham International			64							
Associated British Ports Holdings plc				46		51				
British Airports Authority									534	697
British Aerospace plc - sale of shares		43					347			
British Airways plc - sale of shares								435	419	
British Gas plc - sale of shares								1,820	1,767	1,559
British Gas plc - redemption of debt								750		250
British Petroleum plc - sale of shares	276		8		543				859 ⁽²⁾	2186 ⁽²⁾
British Steel plc - sale of shares										XXX
British Sugar Corporation			44							
British Telecommunications plc - sale of shares						1,358	1,246 ⁽³⁾	1,081		
British Telecommunications plc - loan stock						44	61	53	23	
British Telecommunications plc - redemption of preference shares								250	250	250
Britoil plc - sale of shares				334 ⁽⁴⁾	293		426			
Cable and Wireless plc - sale of shares			181		263		577			
Enterprise Oil plc - sale of shares						384				
Forestry Commission				14	21	28	17	18	16	
Land Settlement					2	12	5	1		
Motorway Service leases				4	1			2	13	
National Enterprise Board Holdings	37	83	2			168	30	34		
Plant Breeding Institute										66
Rolls-Royce									1,028	
Royal Ordnance									187	
North Sea Oil Licence Premia		195		33		121				
Miscellaneous	64	84	194	57	16	6		16		
Total	377⁽⁵⁾	405⁽⁵⁾	493⁽⁵⁾	488	1,139	2,171	2,707	4,460	5,161	XXX

⁽¹⁾ Excludes proceeds from sales of subsidiaries; these are retained by parent industry. The main sales in this category were:

£ million			£ million		
1982-83	International Aeradio (BA)	60	1986-87	BA Helicopters	14
	British Rail Hotels	30		Unipart (Rover) up to	52
				Leyland Bus (Rover)	4
1983-84	British Rail Hotels	15		British Coal subsidiaries	1 (?)
1984-85	Jaguar (BL)	297	1987-88	British Transport Advertising	40(?)
	Sealink (BR)	40		Istel (subsidiary of Rover Group)	48
	Wytch Farm (BGC)	82	1988-89?	National Bus Company Subsidiaries	(?)
1985-86	Warship yards (BS)	54			
	Sealink (BR)	26			

⁽²⁾ Net of the cost of acquiring partly-paid shares under the support arrangements announced by the Chancellor on 29 October 1987.

⁽³⁾ Includes some third instalments (worth £87 million approx) paid early.

⁽⁴⁾ Includes repayments of debentures of £88 million with interests.

⁽⁵⁾ Excludes certain advance oil payments which net out to zero 1979-80 (£622 million), 1980-81 (-£49 million) and 1981-82 (-£573 million).

Relationship between plans and control totals

Departmental aggregates

1.71. Public expenditure plans are formulated on a departmental basis and this is now reflected in all the publications relating to public expenditure. In earlier years the White Paper was produced on a programme basis and it was therefore difficult to reconcile the figures with those shown in the Autumn Statement and Supply Estimates. However, in the 1986 public expenditure White Paper (Cmnd 9702) the departmental breakdown was adopted as a focus of the analyses of the public expenditure plans and the same breakdown was used to arrange the 1986-87 Estimates into classes.

1.72. The same grouping of departments is used in this White Paper and will follow through into the classes for the 1989-90 Estimates. The Autumn Statement gives a slightly more detailed departmental breakdown than the summary tables in this White Paper; the additional detail is, however, available in the tables in Chapters 1 to 20. For example, separate figures for Overseas Development Administration are given in Chapter 2.

1.73. Table 21.1.20 shows the relationship between the public expenditure planning total for 1989-90 and the various control totals which will operate during the year. It summarises the departmental figures given in Chapters 1 to 20.

Relationship with Supply Estimates

1.74. The plans for central government spending shown in Table 21.1.3 provide the basis for the Supply Estimates which will be presented to Parliament. The first two columns of Table 21.1.19 show the extent to which central government expenditure will be directly covered by monies voted by Parliament.

1.75. Precise proposals for the level of voted expenditure, and the relationship with the figures shown in this table, will usually be put forward on Budget Day as part of the Supply estimates for 1989-90. More detailed information on the relationship between these figures and Estimates will be contained in the Summary and Guide to main Estimates. The main Estimates for 1989-90 will reflect the result both of the detailed work involved in the preparation and scrutiny of Estimates and of any agreed claims on the Reserve.

1.76. The change to the definition of the planning total, which is described in paragraph 1.13, will substantially increase the proportion of money voted in estimates that will fall within the planning total.

Cash limits

1.77. About 40 per cent of public expenditure is directly covered by cash limits. Table 21.1.20 shows the extent to which central government expenditure voted in Estimates will be subject to cash limits. As well as that 40 per cent a further 20 per cent of public expenditure is local authority current expenditure and here most of Aggregate Exchequer Grant is subject to cash limits. Most cash limits are based on the Supply Estimates and cover both direct public expenditure by central government and its voted grants and lending to other public sector bodies. The cash limits on Estimates will be formalised in the Summary and Guide to the 1989-90 Estimates.

1.78. Some expenditure outside the scope of the Supply Estimates is also subject to cash limit control, principally certain expenditure by Northern Ireland departments and certain capital expenditure by local authorities. The nationalised industries' contribution to public expenditure is controlled by means of external financing limits, which are a form of cash limit for individual industries. These limits set a ceiling to the amount of finance, in the form of grants and borrowing, that an industry can raise in a given year from external sources (this is equivalent to the difference between its capital requirements and its internally generated funds).

1989 WHITE PAPER - Planning total by department and spending authority for 1989-90

Table 21.1.1a

£ million

	Central government		Local Public corporations authorities- (1)				Planning total		Total
	Voted in Estimates		Other	Voted in Estimates		Other	Voted in Estimates		
	Cash . limited	Other							
Departments									
Defence	20,144						20,144		20,144
Foreign and Commonwealth Office ⁽²⁾	2,029	110	139		30	-1	2,168	138	2,306
European Communities	-309	-1,795	4,074				-2,104	4,074	1,970
Ministry of Agriculture, Fisheries and Food ⁽²⁾	524	1,185		218	20	-1	1,728	218	1,946
Trade and Industry ⁽²⁾	839	648		100	107	-258	1,594	-158	1,436
Energy	343	150			1,152	-1,833	1,645	-1,833	-187
Employment	3,833		89	139	4		3,836	228	4,064
Transport	1,672	111	-8	2,751	795	19	2,578	2,762	5,340
DOE - Housing	613	645	136	203	121	-160	1,378	179	1,557
DOE - Other environmental services ⁽²⁾	513	125		3,752	302	-217	940	3,535	4,475
Home Office and legal departments ⁽²⁾	1,727	719	-191	5,477	1		2,448	5,286	7,734
Education and Science	4,179	74		14,761			4,253	14,761	19,014
Arts and Libraries	439			537			439	537	976
Department of Health	14,980	4,699	15	3,425			19,679	3,440	23,119
Department of Social Security	1,489	16,271	28,528	4,697			17,760	33,225	50,985
Scotland	3,083	1,014	-4	4,710	384	-19	4,481	4,686	9,167
Wales	1,290	565	20	1,789	104	13	1,958	1,822	3,780
Northern Ireland	213		4,115	900		191	213	5,205	5,418
Chancellor's departments ⁽²⁾	2,015	1,973	122			-7	3,988	115	4,103
Other departments ⁽²⁾	165	127	-22				292	-22	269
Reserve			3,500					3,500	3,500
Privatisation proceeds	29		-5,013				29	-5,013	-4,984
Planning total	59,807	26,621	35,498	43,460	3,018	-2,273	89,446	76,686	166,132

(1) Details of individual public corporations included in this table are shown in Table 21.3.1.

(2) See footnotes to Table 21.1.1

Differences from previous White Papers

1.79. Tables 21.1.21 and 21.1.22 show the changes in plans and outturn since last year's public expenditure White Paper (Cm 288). They summarise the differences between the data for public expenditure outturn and the plans published in this White Paper and the figures from Cm 288 adjusted to the same definitions.

1.80. It should be noted that the departmental groupings used in this White Paper are the same as those in Cm 288 with the exception of the Chancellor's and other departments. In Cm 288 Civil Superannuation was included in other departments whereas in this White Paper it is included in Chancellor's departments.

1.81. There are a number of ways in which changes in definition and classification can arise between one White Paper and the next. For example, attribution to spending authority may be altered reflecting a transfer of responsibility, expenditure on a service may be reallocated to another department or the economic classification of a particular item may be reassessed. Examples of changes of this kind which have been made since Cm 288 are:

1.82. (a) The Housing Corporation (Scotland) and the Scottish Special Housing Association will be merged to form Scottish Homes on 1 April 1989. Scottish Homes, like its predecessors, is classified as a public corporation, but unlike them it is accorded external finance treatment in the planning total.

(b) Responsibility for the Commonwealth War Graves Commission, which had previously been directly accountable to Parliament, has been taken over by the Ministry of Defence.

(c) Responsibility for the Government oil pipeline and storage system has been transferred from the Department of Energy to the Ministry of Defence.

1.83. Other changes in the definition of public expenditure may affect the total of public expenditure, for example, to reflect more closely the extent to which a service makes a call on taxation or government borrowing or because an item of expenditure is taken into account for the first time. Several definitional changes of this sort have been made since the publication of Cm 288:

(a) The losses attributable to the Export Credits Guarantee Department's comprehensive bank guarantee and comprehensive external guarantee facilities have been written out of ECGD's trading account and included in public expenditure. They are recorded in the planning total against the years in which they arose.

(b) The receipts of the Companies Registration Office in excess of its costs no longer reduce the public expenditure planning total.

(c) Grants from the European Regional Development Fund to Water Authorities are now included in the public expenditure planning total.

(d) For 1989-90 and subsequent years all payments to Scottish local authority water and sewerage accounts (other than those in respect of domestic sewerage) are treated as trading income rather than as subsidies from local authorities.

1.84. From 1989-90 polytechnics in England are being transferred from the local authority sector to the private sector. They will in future be funded through the Polytechnics and Colleges Funding Council, a central government non-trading body, rather than by local

authorities. Consequently there has been a switch of resources from local authority relevant expenditure to central government expenditure. Although the change does not affect the PSBR, there is an overall increase in the public expenditure planning total and GGE because the polytechnics will inherit assets from the local authorities and will receive grant to enable them to pay interest on the outstanding loans associated with these assets.

Table 21.1.20 Summary of differences from last year's public expenditure White Paper⁽¹⁾ by department

	£ million					
	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	1990-91 plans
Defence		-1	+3	+80	+150	+600
Foreign and Commonwealth Office ⁽²⁾			-81	+80	+60	+130
European Communities	+6		+264	+150	+500	+630
Ministry of Agriculture, Fisheries and Food ⁽²⁾		+10	-84	-350	-380	-340
Trade and Industry ⁽²⁾		+11	-182	+440	+220	+220
Energy	+1		-41	+100	-60	-100
Employment		-6	-52	-120	-250	-370
Transport	+1	-41	-135	-330	+240	+330
DOE-Housing	-4	+166	+247	-970	-1,290	-1,010
DOE-Other environmental services ⁽²⁾		+39	-356	+520	+480	+460
Home Office and legal departments ⁽²⁾		-33	-158	+210	+640	+820
Education and Science	-2	-30	-88	+470	+870	+1,000
Arts and Libraries		-5	+4	+70	+30	+30
Health		-24	+151	+1,060	+1,460	+1,700
Social security	+9	+5	-152	-900	-100	+1,700
Scotland	+33	-33	-125	+210	+410	+410
Wales		+17	+21	+140	+240	+230
Northern Ireland	+5	-37	+16	+20	+140	+180
Chancellor's departments ⁽²⁾			-50	-130	+40	+90
Other departments ⁽²⁾		+1	-3	+100	+70	+70
Reserve				-3,500	-3,500	-3,500
Privatisation proceeds		-39	-161	-1,000		
Adjustment ⁽³⁾			-600	+330		
Planning total	+46	+1	-1,560	-3,300	0	+3,300

⁽¹⁾After adjustment of figures to the definition of public expenditure used in this White Paper.

⁽²⁾See footnotes to Table 21.1.1.

⁽³⁾See paragraph 1.17(iii).

Table 21.1.21 Summary of differences from last year's public expenditure White Paper ⁽¹⁾ by spending authority

	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans	£ million 1990-91 plans
Central government⁽²⁾						
Voted in Estimates	+3	-19				
Other	-4	-14				
Total central government	-2	-34	-443	+708	+3,319	+6,203
Local authorities⁽²⁾						
Relevant	+35	-251	-114	+1,207	+929	+1,152
Other current	+9	13	4	-30	+382	+616
Capital	-2	+348	-109	-566	-1,126	-1,249
Total local authorities	+43	+100	-226	+602	+197	+519
Public corporations						
Nationalised industries			-187	-291	-3	-13
Other public corporations	+5	-45	-53	-126	-21	+144
Total public corporations	+5	-45	-238	-417	-24	+131
Reserve						
Privatisation proceeds		-20	-161	-3,500	-3,500	-3,500
Adjustment ⁽³⁾			-596	+328		
Planning total	+46	+1	-1,643	-3,279	+43	+3,353

⁽¹⁾ After adjustment of figures to the definition of public expenditure used in this White Paper.

⁽²⁾ Excluding finance for public corporations.

⁽³⁾ See paragraph 1.17(iii).

1.85. Text on differences shown in Table 21.1.23

1.86. Text on differences shown in Table 21.1.24

Table 21.1.22 Differences between plans⁽¹⁾ and outturn by department, 1987-88

	£ million			
	Plans ⁽¹⁾	Classification changes	Other	Outturn changes
Defence	18,784	+12	+57	18,853
Foreign and Commonwealth Office ⁽²⁾	2,055		-92	1,963
European Communities	870	+14	+780	1,664
Ministry of Agriculture, Fisheries and Food ⁽²⁾	2,258		-282	1,976
Trade and Industry ⁽²⁾	1,272	+36	-429	879
Energy	-85	+4	+309	228
Employment	4,032	-11	-106	3,915
Transport	5,142		-556	4,586
DOE-Housing	3,204	+20	-527	2,697
DOE-Other environmental services	3,847	+44	-251	3,640
Home Office and legal departments ⁽²⁾	6,216	+195	+85	6,495
Education and Science	16,604	-18	+495	17,081
Arts and Libraries	808	+18	+63	889
Health	19,123	+1	+592	19,716
Social security	46,002	-1	+247	46,249
Scotland	7,961		+125	8,087
Wales	3,192		+138	3,330
Northern Ireland	4,877	-7	+55	4,926
Chancellor's departments ⁽²⁾	2,229	+1,133	+70	3,432
Other departments ⁽²⁾	1,734	-1,354	-84	296
Reserve	3,500		3,500	
Privatisation proceeds	-5,000		-160	-5,160
Planning total	148,625	+88	-2,973	145,740

⁽¹⁾ As in 1987 public expenditure White Paper (Cm 56).⁽²⁾ See footnotes to Table 21.1.1.Table 21.1.23 Differences between plans⁽¹⁾ and estimated outturn by department, 1988-89

	£ million			
	Plans ⁽¹⁾	Classification changes	Other outturn	Estimated changes
Defence	19,208	+14	+79	19,300
Foreign and Commonwealth Office ⁽²⁾	2,157		+78	2,235
European Communities	800		+150	950
Ministry of Agriculture, Fisheries and Food ⁽²⁾	2,212		-349	1,863
Trade and Industry ⁽²⁾	1,369	+12	+434	1,815
Energy	120		+95	215
Employment	4,242		-117	4,125
Transport	5,147		-334	4,813
DOE-Housing	3,020	+1	-968	2,053
DOE-Other environmental services	3,813	+47	+525	4,385
Home Office and legal departments ⁽²⁾	7,025		+209	7,234
Education and Science	17,971		+469	18,440
Arts and Libraries	913		+68	981
Health	20,683		+1,055	21,738
Social security	48,460		-859	47,601
Scotland	8,506		+214	8,720
Wales	3,451		+145	3,596
Northern Ireland	5,144		+21	5,165
Chancellor's departments ⁽²⁾	2,461	+1,335	-128	3,668
Other departments ⁽²⁾	1,607	-1,349	+104	362
Reserve	3,500		-3,500	
Privatisation proceeds	-5,000		-1,000	-6,000
Adjustment ⁽³⁾			328	+328
Planning total	156,806	+60	-3,279	153,587

⁽¹⁾ As in 1988 public expenditure White Paper (Cm 288).⁽²⁾ See footnotes to Table 21.1.1.⁽³⁾ See paragraph 1.18(iii).

Table 21.1.24 Differences from last year's public expenditure White Paper by department for 1989-90

	Plans in last year's White Paper	Classification changes	Other this year's White Paper	Plans in changes
			£ million	
Defence	19,953	+14	+156	20,123
Foreign and Commonwealth Office ⁽¹⁾	2,247		+58	2,306
European Communities	1,470		+500	1,970
Ministry of Agriculture, Fisheries and Food ⁽¹⁾	2,328		-381	1,947
Trade and Industry ⁽¹⁾	1,327	+6	+211	1,544
Energy	-187		-59	-246
Employment	4,304		-283	4,021
Transport	5,115		+242	5,357
DOE-Housing	3,004	+1	-1,295	1,711
DOE-Other environmental services	4,000	-1	+476	4,476
Home Office and legal departments ⁽¹⁾	7,343		+635	7,978
Education and Science	18,638		+932	19,570
Arts and Libraries	951		+24	976
Health	21,679		+1,476	23,155
Social security	51,131		-144	50,987
Scotland	8,611	-54	+411	8,967
Wales	3,549		+238	3,788
Northern Ireland	5,323		+144	5,467
Chancellor's departments ⁽¹⁾	2,595	+1,423	+66	4,084
Other departments ⁽¹⁾	1,672	-1,437	+85	320
Reserve	7,000		-3,500	3,500
Privatisation proceeds	-5,000			-5,000
Planning total	167,056	-48	+43	167,051

(1) See footnotes to Table 21.1.1.

Tax allowances and reliefs

1.87. This White Paper outlines the Government's public expenditure plans but it also needs to be remembered that the Government often has a choice between providing help through public expenditure or through tax reliefs. Where the Government provides help through the tax system then this will be treated in the public sector accounts as a reduction in Government revenue, whereas the provision of a grant to the private sector will count as public expenditure. The effect for the individual or company concerned will often be similar and it is therefore sometimes appropriate to consider the cost of tax reliefs and allowances as well as the direct public expenditure costs when considering the level of assistance provided by the Government to certain sectors of the economy.

1.88. Table 21.1.26 therefore shows the costs of Inland Revenue tax allowances and reliefs in 1987-88. All figures, except those specifically referred to in the footnotes, are on the basis of accruals, not receipts, in 1987-88. In interpreting the costings, the following considerations should be borne in mind:

- (a) No attempt is made to distinguish reliefs and allowances which can be regarded as part of the structure of the tax system.
- (b) Each relief is costed separately; the combined costs of more than one cannot, therefore, be calculated by summing the figures.
- (c) The figures represent the reduction in tax liabilities resulting from the existence of the relief and cannot in general be interpreted as the tax yield from withdrawing it. If a relief were to be withdrawn, taxpayers' behaviour would be likely to change and alterations to other reliefs might be necessary, but estimates of these effects are usually very uncertain, particularly where the figures for the cost of the existence of the relief is large. An obvious example is the exemption from capital gains tax of gains from the sale of owner-occupied houses.

(d) The costs of personal income tax relief and allowances do not cover persons who are not on Inland Revenue records because their incomes are below tax thresholds.

Table 21.1.25 Costs of direct tax allowances and reliefs

	£ million
	estimated cost for 1988-89
Income Tax	
Married man's allowance ⁽¹⁾	13,250
Single person's allowance ⁽²⁾	8,050
Wife's earned income allowance ⁽²⁾	3,600
Husband and wife; election for separate taxation of wife's earnings	390
Age allowance ⁽³⁾	450
Additional personal allowance for one parent family ⁽⁴⁾	170
Widow's bereavement allowance	30
Blind person's allowance	5
Dependent relative allowance	10
Housekeeper allowance	Under 1
Son's or daughter's services allowance	Under 1
Relief for:	
Employees' contributions to occupational pension schemes ⁽⁵⁾	2,300
Employers' contributions to occupational pension schemes ⁽⁵⁾⁽⁶⁾⁽⁷⁾	2,300*
Investment income of occupational pension schemes ⁽⁵⁾⁽⁷⁾	4,100
Lump sum payments to pensioners ⁽⁵⁾	1,200
Retirement annuity premium ⁽⁸⁾	450
Life assurance premiums (where insurance contract made before 14 March 1984) ⁽⁹⁾	520
Qualifying interest on loans for purchase or improvement of owner-occupied etc property	4,750
Approved profit sharing schemes	75*
Approved savings-linked share option schemes ⁽¹⁰⁾	45*
Approved share option schemes ⁽¹¹⁾	400*
Instalment relief on share options exercised outside approved schemes	2*
Personal equity plans	10*
Business Expansion Scheme ⁽¹²⁾	80*
Profit-related pay	under 1
Expenditure on property managed as one estate	2
Foreign pensions	5*
Foreign emoluments (non-domiciled employee of foreign employer) -maximum charge of 75 per cent of emoluments (resident less than 9 years)	25*
Schedule E work expenses allowed as a deduction ⁽¹³⁾	
Half of Class 4 National Insurance Contributions	70
Exemption of:	
First £70 of National Savings Bank, ordinary account interest	15*
Interest on National Savings Certificates including index-linked Certificates	410*
Premium Bond prizes	40*
SAYE	25*
British Savings Bonds bonuses	Under 1
Income of charities ⁽¹⁴⁾	390
Charitable donations under the payroll giving scheme	1
British government securities where owner not ordinarily resident in United Kingdom	390
Foreign service allowance paid to Crown Servants abroad	50
Statutory redundancy payments	*
Payments under job release schemes	1*
Student maintenance awards	40*
NI child dependency additions	15*
Sickness benefit ⁽¹⁵⁾	40*
Invalidity benefit and severe disablement allowances	160*
Industrial disablement benefits	25*
Allowances to rehabilitees	Under 1
Attendance allowance	45*

Mobility allowance	35*
Maternity benefits	
Family income supplement	30*
Supplementary benefits ⁽¹⁷⁾	110*
£10 Christmas bonus for pensioners	10*
War disablement benefits	20*
War widow's pension	20*
Children's allowance to Forces' widows	Under 1
Pensions and annuities paid to holders of the Victoria Cross and certain other gallantry awards	Under 1
Option to tax woodland under Schedule B instead of Schedule D	10*
Farming etc averaging of profits	10*
Income Tax and Corporation Tax	
Capital allowances: ⁽¹⁵⁾⁽¹⁶⁾	
Income tax relief	660*
Corporation tax relief	5,500*
of which:	
North Sea oil and gas production	600*
public corporations	400*
other	4,500*
Double taxation relief: ⁽¹⁷⁾	
Income tax and corporation tax	2,400
Corporation tax:	
Small companies reduced rate of corporation tax	350*
Relief to investment companies for losses on unquoted shares in trading companies	5*
Petroleum Revenue Tax ^(21,22)	
Uplift on qualifying expenditure ⁽²³⁾	720
Relief for exploration and appraisal expenditure	370
Cross field allowance for 10 per cent of development expenditure on certain new fields	999
Oil allowance tax	170
Safeguard: restricting petroleum revenue tax to not more than 80 per cent of the excess over a 30 per cent return on historic capital cost	500
Tariff receipt allowance	40
Exemption for gas sold to British Gas under pre-july 1975 contracts	200*
Capital Gains Tax ^(24,25)	
Exemption of:	
First £6,300 of gains of individuals and first £3,150 of gains of trustees	260
Gains accrued but unrealised at death	65*
Gains arising on disposal of life assurance policies ⁽²⁶⁾	100*
Gains arising on disposal of a person's only or main residence (or residence provided for a dependent relative) ⁽²⁷⁾	2,500*
Relief for:	
Loans to traders	5*
Land acquired by authorities with compulsory purchase powers	3
General rollover relief for gifts (including transfers out of trusts)	50*
Inheritance Tax / Capital Transfer Tax ⁽²⁵⁾	
Exemption of:	
Transfers on death to surviving spouses ⁽²⁸⁾	460*
Transfers to charities on death	110
Reliefs for:	
Agricultural property	40
Business property	20
Heritage property and maintenance funds	50*
Quick succession relief	3
Double taxation	2
Death on active service	Under 1
Stamp duty	
Exemption of:	
Transfers of government stocks and loan stocks	1,500
Transfers of houses or other property (not stocks and shares) where the	

consideration does not exceed
£30,000

*This figure is particularly tentative and subject to a wide margin of error.

- (1) Includes £4,450 million cost of the difference between the married man's and single person's allowance.
- (2) Where a married couple has elected for the wife's earnings to be taxed separately they are each treated as qualifying for a single personal allowance. The cost of the allowances due in these circumstances is included in the cost of the single person's allowance.
- (3) This figure represents the cost of the amount of age allowance in excess of the ordinary personal allowance and includes £10 million cost of the higher age allowance introduced in 1987-88 for those aged 80 and over. The cost of the ordinary personal allowance for taxpayers receiving age allowance is included, as appropriate, in the figures given for the cost of the married man's allowance and single person's allowance.
- (4) Including £4 million for the additional personal allowance available to a married man with children whose wife is totally incapacitated by physical or mental infirmity.
- (5) The total cost of tax reliefs for pension schemes cannot be calculated by adding together the costs of the individual reliefs as this would imply a considerable degree of multiple taxation.
- (6) On the basis that under present arrangements employers' contributions are not taxable as a benefit in kind of the employee.
- (7) Assuming relief at the basic rate of income tax.
- (8) It is not possible to provide reliable estimates of the cost of exemption for investment income and lump sum payments related to retirement annuity contracts.
- (9) Including the cost of deductions at source for non-taxpayers.
- (10) The figure excludes the cost of the tax-free bonus or interest received under the SAYE contract. This is included in the SAYE item below. The figure quoted assumes that all eligible employees exercise their options.
- (11) The figure quoted assumes that all eligible options are exercised and the gain accruing to employees is calculated by reference to the maximum market value of shares in the period January-October 1987.
- (12) On the basis of accruals in 1986-87.
- (13) Of which about £25 million allowable under S.192 of ICTA 1970.
- (14) This figure comprises:
- (i) The total sum repaid to charities and scientific research associations in respect of tax credits on dividends, and income tax deducted at source from other investment income payments under deeds of covenant and payments by companies under S.29, FA 1986. Information is not available about income received by these bodies without deduction of tax, and no allowance in the figures is made for this;
 - (ii) an estimate of the higher rate relief received by the payers of covenanted sums.
- (15) The figure excludes the taxable Statutory Sick Pay (SSP) which has replaced the benefit payable in most cases for the first twenty eight weeks of incapacity arising from sickness or industrial injury.
- (16) This figure excludes the taxable Statutory Maternity Pay (SMP) which has replaced some of the non-taxable benefits which were previously available.
- (17) This includes the cost of not taxing certain components of benefit paid to the unemployed.
- (18) The figures for capital allowances are net of balancing charges.
- (19) Initial and first year allowances were withdrawn for most capital expenditure with effect from 1 April 1986.
- (20) Relates to accounting periods ending 1984-85, the latest year for which fairly full information is available.
- (21) Includes advance petroleum revenue tax.
- (22) The figures are net of any consequential effect on corporation tax and represent the effect on 1987 calendar year accruals.
- (23) The cost of all types of expenditure relief for PRT is upliftable expenditure, including uplift, non-upliftable expenditure and exploration and appraisal expenditure would be £3,100 million. This figure reflects the fact that in the case of PRT-in contrast to many other direct taxes-no distinction is made between revenue and capital, and operating costs as well as capital expenditure are classed as a relief.
- (24) Including Corporation tax on company gains. The estimates allow for indexation of acquisition costs.
- (25) For capital gains tax (including corporation tax on company gains) and capital transfer tax, most of the costs are on a receipts basis, that is, the revenue which would be lost in 1987-88 assuming that the exemptions and reliefs had applied to the transactions on which the 1987-88 receipts were based. The exceptions are the capital gains tax exemption of life assurance policies and the exemption of the only or main residence, which are both on the accruals basis.
- (26) It should be noted that in the absence of a capital gains charge on most life assurance disposals, certain gains from surrenders and maturities of life assurance policies are treated as income to be assessed for higher rate income tax.
- (27) On the assumption that there would be no relief for gains when disposal proceeds are applied to the purchase of another house, and that there would be no consequential effects on length of ownership and on the housing market. Indexation of the acquisition costs will substantially reduce the cost in future years.
- (28) This cost is in respect only of transfers for which an account is submitted to the Capital Taxes Offices.

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Section Two Local authority public expenditure in Great Britain

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2. Local authority public expenditure in Great Britain

2.1 This section covers public spending by local authorities in Great Britain. It provides a summary of current and capital spending and indicates how expenditure is financed. As all local authority spending is allocated to individual departments, details of the Government's policies and objectives, and local authorities' activities and outputs, can be found in **Chapters 1–20** of this White Paper. In Northern Ireland most equivalent spending is carried out by Northern Ireland Departments; see **Chapter 18**.

Introduction

2.2 Local authorities account for over one quarter of expenditure within the public expenditure planning total. Total public spending by local authorities in 1988–89 is projected to be (£43.2) billion. After adjusting for changes in local authority responsibilities it is planned to grow from that base by (4.2) per cent, (3.1) per cent and (2.9) per cent over the next three years.

2.3 Local authorities can only undertake activities, and spend money provided by the ratepayer, community chargepayer or taxpayer, if they are given powers by Parliament. In most areas they have considerable discretion over the amount of, and priorities for, spending on particular services. Elsewhere Parliament or central government sets detailed rules and local authorities have less discretion.

2.4 **Table 21.2.1** shows, for each territory, the three main components of local authority public spending:

- **Public expenditure relevant for Aggregate Exchequer Grant, (AEG)**, which comprises current spending on a wide range of services. This spending is financed partly by Aggregate Exchequer Grant, which includes Rate/Revenue Support Grants, and grants hypothecated to specific services. Local authorities have significant discretion over the level and the distribution of this spending to services. It represents about (80) per cent of their total spending. **Table 21.2.2** shows how this expenditure is allocated to departments.
- **Other current spending**, mainly on rent rebates and allowances (part of housing benefit) and mandatory student awards, over which local authorities have less discretion. This accounts for about (10) per cent of local authority spending and is financed mainly by specific Exchequer grants;
- **Net capital spending** is shown in **Table 21.2.5** This accounts for about (10) per cent of planned local authority spending.

1989 WHITE PAPER - Local authority public expenditure in Great Britain by territory

Table 21.2.1

£ million

	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
Current expenditure									
England									
Relevant expenditure (1)	20,886	22,052	22,641	24,581	27,009	28,961	28,846	29,840	30,640
Other current	2,852	3,122	3,335	3,509	3,713	3,867	4,630	5,000	5,400
Total current	23,739	25,174	25,976	28,090	30,722	32,828	33,475	34,900	36,000
Scotland									
Relevant expenditure(1)	2,741	2,835	2,919	3,134	3,416	3,774	3,880	3,960	4,070
Other current	340	389	389	417	434	441	505	500	600
Total current	3,082	3,224	3,308	3,551	3,850	4,215	4,385	4,500	4,700
Wales									
Relevant expenditure (1)	1,246	1,293	1,329	1,439	1,570	1,700	1,748	1,810	1,860
Other current	176	198	214	227	236	249	293	300	300
Total current	1,422	1,491	1,542	1,666	1,806	1,949	2,041	2,100	2,200
Great Britain									
Relevant expenditure (1)	24,873	26,181	26,889	29,154	31,995	34,435	34,473	35,600	36,570
Other current	3,369	3,709	3,937	4,153	4,384	4,557	5,427	5,900	6,300
Total current	28,242	29,890	30,827	33,308	36,378	38,992	39,901	41,500	42,900
Capital expenditure									
England									
Gross capital	5,619	5,874	5,344	5,617	5,616	6,368	5,776	5,330	5,230
Receipts	-2,146	-2,141	-2,188	-2,703	-3,274	-4,249	-4,476	-4,160	-4,070
Net capital	3,473	3,733	3,157	2,914	2,342	2,119	1,300	1,170	1,160
Scotland									
Gross capital	911	859	875	916	1,084	1,101	1,079	1,080	1,110
Receipts	-169	-212	-207	-195	-257	-288	-181	-170	-170
Net capital	742	646	668	721	827	813	898	910	940
Wales									
Gross capital	417	373	361	446	508	498	460	440	430
Receipts	-98	-115	-88	-103	-114	-149	-175	-180	-180
Net capital	318	257	273	343	394	349	285	260	260
Great Britain									
Gross capital	6,947	7,106	6,580	6,978	7,208	7,967	7,315	6,860	6,770
Receipts	-2,414	-2,469	-2,482	-3,000	-3,646	-4,686	-4,832	-4,510	-4,420
Net capital	4,533	4,637	4,098	3,978	3,562	3,281	2,484	2,350	2,350
Total local authority public expenditure in Great Britain (2)									
	32,775	34,526	34,924	37,286	39,941	42,273	42,384	43,800	45,200

(1) See footnote (2) to Table 21.2.2.

(2) Relevant expenditure, other current and net capital expenditure.

2.5 Throughout this White Paper, the figures for local authority spending in 1987-88 are estimated outturn. Current expenditure figures for 1988-89 and later years are based on local authorities' own budgets, while those for capital are derived from information provided by local authorities up to September 1988. The figures for 1989-90, 1990-91 and 1991-92 are provision made by the Government.

Public expenditure relevant for Aggregate Exchequer Grant

2.6 Local authorities are primarily responsible for the aggregate level of this expenditure, for the share given to each service or programme and for the efficiency and effectiveness of the service

expenditure. Central government has influence through the amount of grant it decides to make available and through the legislation covering local authorities' responsibilities and the local government finance system which the Government places before Parliament. But most decisions are taken locally, within the set statutory and financial framework.

1988-89 2.7 Local authorities' public expenditure relevant for AEG in 1988-89 is expected to be £1.2 billion (3.5 per cent) more than the plans in last year's White Paper. This increase, which reflects local authorities own budgets for 1988-89, is a claim on the Reserve.

1989-90 2.8 Provision for public expenditure relevant for AEG in 1989-90 has been set at £35.2 billion. ((Before Christmas,)) the Government laid before Parliament its Rate Support Grant (Revenue Support Grant in Scotland) proposals for all three countries in Great Britain. This provision is consistent with these proposals. They show an increase over the plans in last year's White Paper of £1.7 billion (after adjusting for changes of responsibilities and classification changes) and an increase over expected 1988-89 outturn (similarly adjusted) of £1.6 billion (4.8 per cent).

2.9 The distribution of the total provision available to individual services is broadly based on local authorities budgets for 1988-89. In 1989-90, local authorities will again distribute spending amongst services in the light of local circumstances and with regard to their statutory duties.

Grant 2.10 Aggregate Exchequer Grant of £17.4 billion will be paid to authorities ~~in the appropriate departmental chapters~~ in Great Britain in 1989-90 to help support this expenditure. This is an increase of £0.8 billion over the amount made available by the Government for 1988-89, after adjusting for changes in responsibilities. Under the provisions of the Rates Support Grant Act 1988, a fixed amount of RSG will be paid to English and Welsh authorities for 1989-90. No further adjustments will be made to RSG in respect of earlier years. Compared to 1988-89, where there is an underclaim of about £0.6 billion in grant because local authorities in England and Wales budgetted to overspend the Government's plans, AEG for 1989-90 represents a cash increase of £1.4 billion.

Rate limitation 2.11 Seven English general purpose authorities plus the Inner London Education Authority have been reselected for rate capping in 1989-90. In Scotland, any authority which plans an excessive and unreasonable level of expenditure for 1989-90 may be subject to selective action by the Secretary of State to require reductions in its community charge.

Later years 2.12 As in recent public expenditure White Papers, it is assumed that public expenditure relevant for AEG will be broadly constant in real terms in the later years. The conventional assumption is that the distribution of expenditure between services in the later years is generally the same as for the coming year, which in turn is largely based on local authorities budgets for the current year.

2.13 Provision for public expenditure relevant for AEG has thus broadly been made to allow for year-on-year increases in England and Wales of 3.5 per cent in 1990-91, plus an addition for the extra costs of collecting the community charge, and 3 per cent in 1991-92. Provision for Scotland has been calculated by the application of the territorial block budget rules to the increase in English provision.

2.14 Under the new planning total (see paragraph 1.XX) these plans for 1990-91 and 1991-92 will be superseded by plans for grants and payments of non-domestic rates. The Government will also be providing an indication for at least the year ahead, of the assessed need to spend on individual services.

1989 WHITE PAPER – Local authority public expenditure relevant for Aggregate Exchequer Grant

Table 21.2.2

£ million

	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
England									
Ministry of Agriculture Fisheries and Food	91	93	99	130	137	144	149	150	160
Department of Trade and Industry	56	59	64	67	72	80	83	90	90
Department of Employment	73	81	84	96	100	110	125	130	130
Office of Arts and Libraries	362	383	404	437	472	502	520	540	550
Department of Transport	1,837	1,918	1,792	1,792	1,855	1,925	2,018	2,080	2,130
Department of the Environment									
-Non-HRA housing	126	126	149	167	201	184	188	200	200
-RFRACs to HRAs (1)	504	440	451	422	477	441	428	440	460
-Other environmental services	2,380	2,478	2,618	2,738	2,998	3,226	3,440	3,650	3,760
Home Office	3,120	3,541	3,554	3,871	4,298	4,672	5,010	5,190	5,340
Department of Education and Science	10,102	10,525	10,912	12,061	13,222	14,223	13,548	13,950	14,300
Department of Health	2,135	2,274	2,365	2,631	2,965	3,240	3,141	3,240	3,320
Department of Social Security	100	133	150	168	212	215	195	200	210
Total relevant expenditure in England	20,886	22,052	22,641	24,581	27,009	28,961	28,846	29,840	30,640
Of which: "relevant current" expenditure (2)	20,382	21,612	22,190	24,159	26,532	28,520	28,438	29,420	30,200
Scotland									
Scottish Office									
Trade, industry, energy and employment	6	7	8	8	9	11	11	10	10
Tourism	3	3	3	4	5	5	4		
Roads and transport	245	240	237	289	308	339	335	350	350
Housing	1	2	3	2	2	2	2		
Other environmental services	341	347	349	385	398	476	471	480	500
Law order and protective services	316	335	345	374	416	444	478	490	500
Education	1,445	1,485	1,530	1,643	1,799	1,961	1,981	2,010	2,070
Arts and libraries	47	50	53	56	59	65	67	70	70
Health and personal social services	290	305	330	350	391	439	462	470	480
Nationalised industries' external finance	30	40	39						
Unallocated margin							37	40	40
Total Scottish Office	2,725	2,814	2,897	3,111	3,386	3,741	3,848	3,920	4,030
Department of Trade and Industry	5	5	5	5	6	7	7	10	10
Department of Employment	3	3	3	4	5	6	5	10	10
Department of Social Security	9	14	13	14	19	20	20	20	20
Total relevant expenditure in Scotland	2,741	2,835	2,919	3,134	3,416	3,774	3,880	3,960	4,070
Memo item: common police services		4	5	6	7	7	7	10	10
"Relevant current" expenditure in Scotland (2)	2,741	2,839	2,924	3,140	3,423	3,781	3,887	3,960	4,080

2 Local Authorities

Wales

Welsh Office

Agriculture, fisheries and food									
Trade and industry									
Employment and training	3	3	3	3	4	4	6	10	10
Roads and transport	97	98	99	111	122	129	130	130	140
Housing - Non HRA	6	6	7	7	7	7	8	10	10
Housing - RFRACs to HRAs (1)	8	5	2	2	3	3	2		
Other environmental services	180	187	192	202	216	233	230	240	240
Education	636	655	672	740	806	877	916	950	980
Arts and libraries	17	17	18	20	22	24	25	30	30
Health and personal social services	113	118	126	135	148	161	155	160	160
Nationalised industries' external finance	7	7	7						
Total Welsh Office	1,067	1,096	1,126	1,220	1,328	1,438	1,471	1,520	1,560
Department of Trade and Industry	4	5	5	5	5	6	6	10	10
Department of Employment	2	2	2	2	3	3	3		
Home Office	167	184	189	204	225	246	260	270	280
Department of Social Security	5	6	7	8	10	8	8	10	10
Total relevant expenditure in Wales	1,246	1,293	1,329	1,439	1,570	1,700	1,748	1,810	1,860
Of which: "relevant current" expenditure (2)	1,238	1,289	1,326	1,437	1,567	1,697	1,746	1,810	1,860
Total relevant expenditure in Great Britain	24,873	26,181	26,889	29,154	31,995	34,435	34,473	35,600	36,570
"Relevant current" expenditure in Great Britain (2)	24,361	25,741	26,441	28,736	31,522	33,998	34,071	35,190	36,140

(1) Contributions from local authorities' rate funds to make good deficits, or build up balances, on their housing revenue accounts.
 (2) The term "relevant current" spending is used in Rate Support Grant Reports to mean public expenditure relevant for AEG (the previous line), less RFRACs to HRAs in England and Wales and loan repayments by polytechnics in England, plus expenditure in Scotland on common police services (provided by central government for local authorities on a repayment basis). These "relevant current" figures for 1989-90 were highlighted in the Government's RSG proposals laid before Parliament before Christmas.

Other current spending

2.15 The main components of other current spending are rent rebates and rent allowances (part of housing benefit), and mandatory student awards. Other small items include payments from the European Community for the purchase of school milk, and milk and butter for use in school meals, and expenditure on the running costs of the rent officer service and rent assessment panels. This expenditure is almost all financed by central government grants.

2.16 Details of expenditure under this heading are shown in **Table 21.2.3**. It is forecast to be £4.7 billion in 1988-89, the same as in in last year's White Paper. The provision for 1989-90 and 1990-91 is ((£430)) million and ((£500)) million greater than the corresponding figures in last years White Paper. Further information can be found in the appropriate departmental chapters.

1989 WHITE PAPER - Local authority other current expenditure in Great Britain

Table 21.2.3

£ million

	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
Housing benefit	2,442	2,746	3,050	3,287	3,491	3,667	4,474	4,900	5,300
Mandatory student awards	734	744	710	703	761	766	859	910	930
School meals and milk	22	28	27	29	31	35	36	40	40
Careers service strengthening scheme (1)	14	15	15	16	17	19	2		
Expenses of rent officers, and rent act administration	17	18	17	18	18	21	24	20	30
Imperial and national services grant (2)	13	14	15	17	19	21	21	20	20
Other	127	144	103	83	47	27	10		
Total local authority other current expenditure in Great Britain	3,369	3,709	3,937	4,153	4,384	4,557	5,427	5,900	6,300

(1) Expenditure supported by the careers service strengthening scheme grant in England and Wales has been transferred to public expenditure relevant for AEG from 1989-90.

(2) The imperial and national services grant was abolished from 1989-90 and provision was transferred to relevant expenditure.

Capital spending

1987-88 and 1988-89 outturn

2.17 Local authority gross capital spending in Great Britain in 1987-88 totalled £7.2 billion. In 1988-89 it is expected to increase to £8.1 billion, some £1.1 billion more than provided for in last year's White Paper. However, receipts are projected to be £1.6 billion higher than originally forecast, so the outturn on net capital spending in 1988-89 is estimated at around £0.5 billion lower than expected. These estimates take account of the first quarter returns from local authorities. The increase in receipts is mainly due to increased sales of council houses in England.

1989-90 to 1991-92

2.18 Provision of £7.4 billion has been made for local authority gross capital spending in Great Britain in 1989-90. For the subsequent years provision is made for gross capital spending to be £6.9 billion and £6.8 billion. **Table 21.2.1** sets out the figures for gross and net spending in England, Scotland and Wales. Further information about spending in Scotland and Wales will be available in the commentaries on the Scotland and Wales programmes, due to be published early in 1989.

2.19 Capital receipts are forecast to be £5.0 billion in Great Britain in 1989-90 and £4.6 billion in 1990-91 and £4.5 billion 1991-92, giving net provision for local authority capital spending of £2.5 billion in 1989-90 and £2.3 billion in 1990-91 and 1991-92.

Main services

2.20 Following consultation with the local authority associations, the government decided that the DOE/LA1 and WO/LA1 cash limits should be discontinued with effect from 1988-89, pending the introduction of new cash limits in 1990-91 under the new capital finance system. The capital expenditure and capital receipts on the main local authority services (education, housing, personal social services, transport and other environmental services), which were previously included in DOE/LA1, now recorded under the English Local Authorities Block (ELAB), and that in WO/LA1 is now recorded in the Welsh Office Local Authorities Block (WOLAB).

2.21 **Table 21.2.5** sets out recent figures for total local authority capital expenditure within the ELAB and WOLAB blocks and the expenditure on other local authority capital covered by cash limits. Gross spending within ELAB is planned to total £5.8 billion in

1989-90, some £0.8 billion higher than provided for in last year's White Paper. This is offset by forecast receipts of £4.6 billion to give net provision of £1.2 billion.

2.22 Local authorities receive capital allocations from central government which convey permission to undertake capital spending. Capital allocations on ELAB in 1989-90 will be £2,496 million, compared to £2,767 million in 1988-89. **Table 21.2.4** shows the distribution of the allocations between the service blocks.

Table 21.2.4	Capital allocations by service	£million	
		1988-89 ⁽¹⁾	1989-90
	Housing	1,342	1,110
	Transport	665	625
	Education	387	352
	Personal social services	75	67
	Other services	293	340
	PTE rolling stock ⁽²⁾	5	1
	Total	2,767	2,496

⁽¹⁾ Includes the extra £142 million allocations made available as a result of end year flexibility.

⁽²⁾ Allocations transferred from British Rail to local authority capital to help passenger transport executives purchase rolling stock.

1989 WHITE PAPER - Local authority capital expenditure in Great Britain

Table 21.2.5

£ million

	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
ELAB									
Gross spending									
Housing	3,023	3,032	2,664	2,739	2,874	3,208	3,052	2,780	2,630
Transport	807	875	727	703	729	722	792	800	820
Education	435	467	495	536	533	500	439	450	460
Personal social services	84	95	101	110	117	131	119	120	120
Other services									
Ministry of Agriculture, Fisheries and Food	68	47	41	35	29	23	37	40	40
Environment	716	848	788	945	751	1,192	819	630	630
Home Office	39	40	36	51	55	41	34	40	40
Education (1)	21	25	23	27	23	12	12	10	10
Other departments (2)	46	55	59	54	54	61	23	20	20
Total other services	890	1,014	948	1,113	913	1,330	925	740	740
Housing Association Grant (3)	128	134	110	120	122	130	104	90	90
Total gross spending	5,367	5,617	5,045	5,321	5,289	6,020	5,432	4,980	4,870
Receipts									
Housing	-1,761	-1,628	-1,617	-1,899	-2,190	-3,155	-3,490	-3,100	-3,000
Transport	-30	-41	-39	-45	-50	-56	-52	-50	-50
Education	-44	-75	-91	-121	-145	-105	-104	-110	-110
Personal social services	-17	-23	-28	-29	-38	-35	-40	-30	-30
Other services									
Ministry of Agriculture, Fisheries and Food	-8	-10	-20	-25	-25	-20	-10	-10	-10
Environment	-235	-312	-330	-477	-753	-825	-745	-840	-840
Home Office	-4	-3	-3	-5	-8				
Education (1)	-1	-3	-7	-11	-13				
Other departments (2)	-2	-2	-1	-10					
Total other services	-250	-330	-361	-529	-799	-845	-756	-850	-850
Total receipts	-2,103	-2,097	-2,136	-2,623	-3,223	-4,196	-4,442	-4,130	-4,040
Total net local authority capital in ELAB (3)	3,136	3,386	2,799	2,578	1,944	1,695	886	760	740
Total ELAB (3)	3,264	3,520	2,909	2,698	2,066	1,825	990	850	840
HO/LA1									
England	73	77	87	65	110	124	144	150	150
Wales	5	4	6	7	8	8	4		
Total HO/LA1	78	81	93	71	118	132	148	150	160
DOE/UA1									
Other environmental services	190	207	209	214	234	270	238	230	230
Other departments	65	53	55	49	47	25	25	30	30
Other: Urban Development Corporations etc (3)	96	92	89	95	142	252	304	330	340
Total DOE/UA1	350	352	353	357	423	547	567	590	590
Memo item: not in ELAB or cash limits (4)									
England-Total (3)	9	10	7	8	8	5	7	10	10
England-Total (3)	3,473	3,733	3,157	2,914	2,342	2,119	1,300	1,170	1,160

2 Local Authorities

WOLAB									
Transport			1						
Employment					1	1	1		
Home Office	2	3	3	3	3	1	1		
Welsh Office	312	253	261	339	382	340	280	260	250
Total WOLAB	315	256	265	342	386	343	282	260	250
Memo item: not in WOLAB (5)	-1	-2	2	-5	1				
Wales-Total	319	258	274	344	395	350	286	270	260
SO/LA1 - non housing	389	386	414	408	417	465	494	500	510
SO/LA2 - housing									
Local authority	350	257	251	312	406	346	402	410	420
Housing Association Schemes (6)	6	17	9	7	7				
Other (7)	128	142	152	157	159	180	197	220	220
Total SO/LA2	485	416	412	476	572	526	599	630	640
Memo item: not in cash limits (8)	3	3	2	2	3	1	1		
Scotland-Total	742	646	668	721	827	813	898	910	940
Total local authority capital expenditure in Great Britain									
Net	4,534	4,638	4,099	3,979	3,564	3,282	2,485	2,350	2,350
Gross	6,947	7,106	6,580	6,978	7,208	7,967	7,315	6,860	6,770

(1) Includes youth service and other educational services.

(2) Includes Employment, Trade and Industry and Arts and Libraries.

(3) Local authority capital expenditure in England excludes Urban Development Corporations, etc which are included in DOE/UA1 and Housing Association Grant which is included in ELAB.

(4) Expenditure by internal drainage boards.

(5) Expenditure by the Land Authority for Wales and the careers service strengthening scheme.

(6) Housing Associations Schemes financed by local authorities. This is excluded from local authority capital expenditure in Scotland.

(7) Expenditure on the Housing Corporation, Scottish Special Housing Association and New Towns. This is excluded from local authority capital expenditure in Scotland.

(8) Expenditure on ports, airports and Training Agency projects which is not the responsibility of the Secretary of State for Scotland.

2.23 The total spending power available to local authorities on ELAB in 1989-90 is forecast to be £7.4 billion. In addition they are forecast to undertake £0.85 billion of non-prescribed spending for which no spending permission is needed.

Table 21.2.6 Spending power and provision for the English Local Authorities Block (ELAB) in 1989-90.

	£million
1. Spending power from in-year receipts	+1,138
2. Spending power from accumulated receipts	+3,465
3. Tolerance	+250
4. Trading profits	+60
5. Spending power (excluding allocations)	= 4,913
6. multiply by assumed usage of spending power	x 53%
7. equals forecast spending from spending power	= 2,604
8. less receipts netted off gross provision	-175
9. plus non-prescribed spending	+850
10. Plus allocations ⁽¹⁾	+2,495
11. plus allocations for passenger transport authorities' rolling stock	+1
12. equals Total gross provision for spending on ELAB	= 5,773

⁽¹⁾ Excluding £1 million transferred to local authority capital to help passenger transport authorities purchase rolling stock (line 11)

2.24 Table 21.2.6 shows how spending power in 1989-90 is related to gross provision. Lines 1 to 4 and 10 reflect the different sources of spending power. The remaining lines in the table show the adjustments necessary to arrive at gross provision. These figures are

based on estimates available when the Survey decisions were being taken.

(i) **In-year receipts.** Receipts of £4,562 million are forecast to arise for 1989-90. A further £250 million receipts create spending power under the capital control legislation but are not included in the national accounts. Local authorities are allowed to spend a proportion of their accumulated and in-year receipts each year. This is called the prescribed proportion. Over 75 per cent of receipts arise on housing and carry a 20 per cent prescribed proportion. Most other receipts carry a 30 per cent prescribed proportion but around £100 million carry 100 per cent prescribed proportion. On average 23.6 per cent of in-year receipts can be used immediately so that in-year receipts will give rise to spending power of £1,138 million.

(ii) **Accumulated receipts.** By April 1989 local authorities are expected to have accumulated from earlier years' unused spending power from receipts of £12.6 billion. Local authorities are allowed to use part of these receipts each year - the prescribed proportions are the same as for in-year receipts. The average amount they are allowed to use is 27.5 per cent. This means that local authorities will have estimated spending power of £3.5 billion from their accumulated receipts in 1989-90. Jointly, accumulated and in-year receipts will give spending power of an estimated £4.6 billion in 1989-90 for local authorities compared to £4.2 billion in 1988-89. This spending power is fully allowed for in the plans.

(iii) **Tolerance.** Up to 10 per cent of allocations (£250 million) will be available to local authorities as tolerance. This is the power to anticipate or carry forward allocations from an adjoining year by up to 10 per cent of allocations in the current year.

(iv) **Trading profits.** An allowance of £60 million is made for trading profits as these convey additional spending power. Bus and airport undertakings are not included for this purpose because spending financed from their trading profits does not count against authorities' spending power.

(v) **Spending power.** In 1989-90 local authorities will have total spending power excluding allocations of £4,910 million available, (=items (i) to (iv)).

(vi) **Assumed usage of this spending power.** On the basis of previous experience it is assumed that local authorities will use only 53 per cent of the available spending power from these sources.

(vii) **Forecast use of spending power.** Multiplying the total spending power by the percentage expected to be used (items (v) and (vi)) indicates that local authorities are likely to incur about £2,602 million prescribed (controlled) capital spending in 1989-90 funded from all sources, except allocations.

(viii) **Receipts netted off.** An adjustment is made of £175 million to take account of the fact that some receipts under the capital control system are netted directly off gross expenditure in the public expenditure figures. These are leasing disposals and repayments of certain grants and advances, and payments from health authorities for jointly funded schemes.

(ix) **Non-prescribed spending.** An allowance for non-prescribed spending of £850 million is made. This is expenditure which does not count against individual authorities' spending limits. It includes capitalised repairs not financed by borrowing and finance leases arranged prior to April 1987.

(x) **Allocations.** In 1989-90 allocations of £2,496 million will be issued including £135 million to help prepare for the community charge.

(xi) **Passenger transport authorities rolling stock.** For 1989-90 £1 million has been transferred to local authority capital to help Passenger Transport Authorities purchase rolling stock from British Rail.

(xii) **ELAB gross provision.** The resulting total shows the gross provision for the block in 1989-90.

Financing of local authority spending

2.25 All local authority spending is ultimately financed by ratepayers, or community chargepayers, by taxpayers, or from rents and other trading surpluses, charges or capital receipts. Borrowing only postpones the financing burden to future years. **Table 21.2.9** shows how the local government share of general government expenditure is derived from the public expenditure figures, and how it was financed in the years up to 1987-88. This table covers local authorities throughout the United Kingdom - separate figures for Great Britain are not available. It includes the main transactions between central and local government (grant, borrowing and debt interest) as well as local authorities' transactions with trading organisations (including their own housing revenue accounts) and private individuals and businesses.

2.26 About half of local authority spending on this definition is financed by central government grants, which are financed in turn by central taxation or borrowing. Grants other than Aggregate Exchequer Grant have become more important in recent years.

2.27 About one third of spending is financed by domestic and business rates, net of rebates for those on low incomes, for the disabled and for businesses in enterprise zones. The remaining portion of spending is financed from surpluses on trading, from rents and from borrowing. Over recent years, authorities have switched to borrowing from the Public Works Loans Board. Debt interest, at ((10)) per cent of spending, remains significant.

Table 21.2.7 Financing of local authority expenditure in the United Kingdom ⁽¹⁾

	1983-84	1984-85	1985-86	1986-87	1987-88
Local authority public expenditure in Great Britain (as in Table 21.2.1)	32,620	34,360	34,760	37,250	39,920
Debt interest ⁽²⁾	3,900	4,090	4,450	4,440	4,420
National accounts adjustments ⁽³⁾	2,470	2,620	3,140	3,340	3,930
Local authority expenditure in the United Kingdom ⁽⁴⁾	39,000	41,080	42,360	45,030	48,270
Financed by					
Aggregate Exchequer Grant ⁽⁵⁾	14,410	14,660	14,750	14,920	16,000
Other government grants ⁽⁶⁾	5,670	6,130	6,350	7,940	8,530
Rates (net of all rebates)	12,260	12,950	13,880	15,700	16,960
Trading surpluses, interest and dividends	1,070	1,130	1,220	1,290	1,420
Rents ⁽⁷⁾	2,820	2,870	3,080	3,020	3,000
Borrowing ⁽⁸⁾ :					
from central government (PWLB)	3,430	3,330	5,740	5,880	4,100
from other sources	-2,230	-940	-4,070	-5,650	2,700
Other receipts ⁽⁹⁾	1,570	950	1,410	1,930	970
Total income	39,000	41,080	42,360	45,030	48,270

⁽¹⁾ The information in this table is mainly taken from Tables 2.4, 4.1, 4.2 and 4.3 of the October 1988 edition of "Financial Statistics", produced by the Central Statistical Office. All figures are rounded to the nearest £10 million.

⁽²⁾ This includes debt interest paid via central government (for borrowing undertaken by the Public Works Loans Board), as well as debt interest payments direct to the financial markets.

⁽³⁾ Further details are shown in Table 2.4 of "Financial Statistics". The adjustments include: a) expenditure by District Councils in Northern Ireland (about £110 million in 1987-88); b) VAT payments by local authorities that are refunded by central government (about £1,300 million); c) the imputed consumption of capital assets in non-trading services (about £1,550 million); d) adjustments to convert from the cash accounting basis used in this White Paper to the accrual basis used in Financial Statistics and the National Accounts; e) other minor changes, eg financial leases taken out by local authorities.

⁽⁴⁾ This is larger than the local authority component of general government expenditure (GGE) shown in Table 2.4 of "Financial Statistics" because debt interest payments from local to central Government are included. This figure is net of income from fees and charges, and includes expenditure on goods and services purchased from central government.

⁽⁵⁾ The figures for the Aggregate Exchequer Grant paid to local authorities in England, Scotland and Wales are based on the Supplementary RSG reports in force in October 1988.

⁽⁶⁾ Housing subsidy, housing benefit subsidy (for rent and rate rebates), the grant supporting mandatory student awards, repayment of VAT (see footnote 3), etc.

⁽⁷⁾ Notional profits of local authorities' council housing activities, gross of interest payments and repayments of outstanding debt.

⁽⁸⁾ A negative figure indicates a net repayment of debt.

⁽⁹⁾ Accruals adjustments, miscellaneous receipts, debt balancing item (the total statistical error), etc.

Reform of Local Government Finance

Scotland 2.28 The Abolition of Domestic Rate Etc (Scotland) Act 1987 provides for the abolition of domestic rates and the introduction of the community charge in Scotland from 1 April 1989. It also reforms the distribution of grant and limits the increase in non-domestic rate poundages to no more than the increase in the Retail Prices Index each year.

England and Wales 2.29 The Local Government Finance Act 1988 will introduce similar changes in England and Wales in 1990. In addition there will be a national non-domestic rate, set by central government within a tight statutory framework uniformly throughout England and (separately) Wales. Increases in the poundage will be no more than the recorded rate of increase in retail prices. Proceeds will be pooled and distributed to authorities as a common amount per adult.

2.30 There will be transitional arrangements to phase in the larger changes in business rates bills on individual business properties; and to phase in changes in each authority's income from non-domestic rates and Exchequer grant combined.

Reform of capital control system in England and Wales 2.31 The Government intend to introduce a revised system of capital finance alongside the community charge and other reforms of local government finance in April 1990.

2.32 A consultation paper on local government capital expenditure and finance was published on 7 July. The new system proposes to control the amount of credit (including borrowing) that local authorities can incur. Ministers will issue credit approvals to each local authority and it will be illegal for local authorities to exceed these limits. A proportion of capital receipts will have to be set aside to repay debt. The remainder can be spent. Local authorities will also be free to finance extra capital spending from the community charge. The necessary legislation is in the Local Government and Housing Bill currently before Parliament.

Value for money 2.33 The Audit Commission is responsible for encouraging efficiency and value for money in the provision of local authority services in England and Wales. Value for money improvements of over £200 million per year have been achieved following work by the Commission; the Commission has also identified scope for achieving further savings of about £0.5 billion a year. Further details of their work can be found in **Chapter 10**. The Accounts Commission which undertakes similar work in Scotland has recently been given similar powers to conduct value for money studies.

2.34 The Government encourages all authorities to take full advantage of opportunities to improve their efficiency. In particular the Government has taken steps to ensure that local authorities expose some of their services to competition. The Local Government Act 1988 requires local authorities to put several services, including refuse collection, catering, cleaning, ground and vehicle maintenance out to tender: competitive tender requirements for these services will be introduced over several years, starting in August 1989. Improvements in value for money are expected both from tighter in-house management and contracting out.

1989 WHITE PAPER - Local authority public expenditure in England by function

Table 21.2.8

£ million

	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
Current expenditure in England									
Agriculture, fisheries, food and forestry	109	117	122	154	163	169	175	180	180
Trade, industry, energy and employment	141	152	160	176	186	206	208	220	220
Arts and libraries	362	383	404	437	472	502	520	540	550
Roads and transport	1,837	1,918	1,792	1,792	1,855	1,925	2,018	2,080	2,130
Housing	647	584	617	609	697	648	641	660	680
Other environmental services	2,380	2,478	2,618	2,738	2,998	3,226	3,440	3,650	3,760
Law, order and protective services	3,134	3,557	3,571	3,890	4,317	4,693	5,032	5,210	5,360
Education and science	10,792	11,224	11,580	12,722	13,938	14,943	14,357	14,800	15,180
Health and personal social services	2,135	2,274	2,365	2,631	2,965	3,240	3,141	3,240	3,320
Social security	2,202	2,487	2,748	2,941	3,131	3,277	3,944	4,300	4,600
Total current expenditure	23,739	25,174	25,976	28,090	30,722	32,828	33,475	34,900	36,000
Capital expenditure in England									
Agriculture, fisheries, food and forestry	69	46	28	18	11	8	33	40	40
Trade, industry, energy and employment	4	6	6	6	7	6	7	10	10
Arts and libraries	40	48	52	38	48	56	17	20	20
Roads and transport	797	850	698	668	689	677	751	760	780
Housing	1,287	1,425	1,074	864	709	52	-438	-320	-370
Other environmental services	670	743	667	681	232	637	312	30	20
Law, order and protective services	109	114	120	111	157	165	179	180	190
Education and science	424	423	432	442	404	414	354	360	370
Health and personal social services	73	78	79	85	84	102	85	100	100
Total capital expenditure	3,473	3,733	3,157	2,914	2,342	2,119	1,300	1,170	1,160
Total local authority expenditure	27,212	28,907	29,133	31,004	33,064	34,947	34,775	36,000	37,200

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Section Three Public corporations

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Bibliography

3. Public corporations

Introduction

3.1. Public corporations are publicly owned bodies, usually set up under their own statutes, and are accountable to central government, or, in the case of Local Authority Public Transport and Airport companies, local government. They operate with a substantial degree of independence. They are usually run by Boards appointed by Ministers and accountable to them. In most cases, accountability to Parliament runs through an individual sponsor Minister and department. Public corporations are trading bodies, or have substantial trading activities, though some also have significant regulatory or other non-commercial functions. They include the nationalised industries, but also various other bodies such as the development agencies, Scottish Homes and the BBC. A full list is given in **Table 21.3.1**.

3.2. The Government's objectives for these bodies vary, but for most it is a primary aim that, as far as possible, their activities should be financed by the consumers of their goods and/or services rather than the taxpayer. For some services, however, public subsidy is considered appropriate. Some corporations' investment programmes may also need to be partly financed by borrowing, rather than falling wholly on the current consumers of their services.

3.3 Given that a substantial part of the public corporations activities are subject to commercial disciplines, different conventions are applied to the measurement of their public expenditure from those applying to central or local government. The details vary, for a range of reasons, but the guiding principle is that public expenditure should represent the burden on public resources, and should therefore not include funds generated through the corporations' trading activities.

3.4. Accordingly, for the nationalised industries and most other public corporations it is their external finance which is included in the planning total. External finance consists of government finance (grants, subsidies, loans and equity), market and overseas borrowing and the capital value of some assets acquired under financial leasing. In the case of nationalised industries, external finance is subject to annual external financing limits (EFLs).

3.5. Over the years an increasing number of public corporations have been given this type of treatment within the public expenditure planning total. However, there are a few exceptions where, for a variety of reasons, other treatments apply.

3.6. **Table 21.3.1** lists all nationalised industries and other public corporations and shows their contributions to the planning total for each of the years 1983-84 to 1989-90.

3.7. The other tables in this chapter provide more detailed analyses of the financing of the nationalised industries and other public corporations. Commentaries on individual nationalised industries and other public corporations can be found in the chapter of this White Paper covering the department which sponsors them (chapter references are given in the index at the end of this chapter).

Table 21.3.1 Contributions to the planning total by individual public corporations

	£ million						
	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans
Nationalised industries							
BAA plc ⁽¹⁾	18	10	-21	17	-9		
British Airways	-174	-335	-211	-113			
British Coal Corporation ⁽²⁾	1,183	1,720	429	902	918	750	563
British Gas Corporation	-45	-189	-190	-684			
British National Oil Corporation	10	43	31				
British Railways Board	811	1,045	910	777	591	590	684
British Shipbuilders	306	235	48	241	118	131	90
British Steel Corporation	318	523	411	22	-290	-318	-150
British Telecom	-225	-341					
British Transport Docks Board							
British Waterways Board	41	43	44	45	45	47	48
Civil Aviation Authority	-8	-10	25	7	1	20	20
Electricity (England and Wales)	-485	523	-468	-1,325	-1,261	-1,145	-1,200
Enterprise Oil	-65	-20					
Girobank	-12	-2					
London Regional Transport ⁽³⁾			323	279	204	297	152
National Bus Company	64	56	48	-19	-118		
North of Scotland Hydro-Electric Board	-20	42	-39	-12	4	-2	-2
Post Office	-62	-100	-75	-93	-80	-97	-98
Scottish Transport Group	14	14	11	8	5		2
South of Scotland Electricity Board	253	285	229	236	124	69	-79
Water (England and Wales)	350	286	208	107	35	-14	-47
Total nationalised industries	2,274	3,827	1,709	386	268	321	-33

Other public corporations whose external finance is included in the planning total ⁽⁴⁾

The Audit Commission	2						
British Technology Group	8						
Cable Authority							
Commonwealth Development Corporation	42	43	35	25		32	30
Covent Garden Market Authority	-1	-1	-1	-1	-17		
The Crown Agents	-1	-1	-1	-1	-1	-1	-1
The Crown Agents Holding and Realisation Board	-1						
The Crown Suppliers ⁽⁵⁾	-4	7	-5				
Development Board for Rural Wales	9	10	10	10	9	12	12
English Industrial Estates Corporation				13	13	19	19
General Practice Finance Corporation	13	23	23	27	12	10	
Her Majesty's Stationery Office ⁽⁵⁾	-8	-7	-7	-7	-7	-7	-7
Highlands and Islands Development Board	31	35	30	26	26	32	30
Housing Action Trusts						5	50
Letchworth Garden City	1	3	3	2	4		
Local Authority Public Transport and Airport Companies ⁽⁶⁾				30	17	50	46
National Film Finance Corporation							
Northern Ireland Electricity Service	47	93	72	-28	7	6	-7
Northern Ireland Housing Executive	262	297	309	297	315	301	291
Northern Ireland Public Trust Port Authorities		1	1	1	1		
Northern Ireland Transport Holding Company	19	21	21	22	21	19	19
Oil and Pipelines Agency							
The Pilotage Commission							
Royal Mint ⁽⁵⁾	-1	-1	-1				
Royal Ordnance plc	4	87	36	-12			
Scottish Development Agency	89	77	93	89	92	98	102
Scottish Homes ⁽⁷⁾							190
United Kingdom Atomic Energy Authority ⁽⁵⁾				9	-3	-22	-7
Urban Development Corporations	94	88	86	89	145	226	237
Welsh Development Agency	44	41	33	35	57	65	63
The Welsh Fourth Channel Authority							

3 Public Corporations

Public corporations given other treatments in the planning total ⁽⁷⁾

Bank of England							
British Broadcasting Corporation							
Housing Corporation (Scotland) ⁽⁷⁾	-13	-18	2	5	7	17	
Independent Broadcasting Authority							
National Dock Labour Board			12	4	5	4	1
New Town Development Corporations and the Commission for New Towns	217	213	125	17	-200	-144	5
Public Trust Ports	75	72					
Scottish Special Housing Association ⁽⁷⁾	36	49	48	55	48	46	
Total other public corporations	966	1,132	925	706	551	766	1,073
Total	3,239	4,959	2,634	1,093	819	1,087	1,040

⁽¹⁾Formerly British Airports Authority.

⁽²⁾Formerly National Coal Board.

⁽³⁾London Regional Transport became a nationalised industry in June 1984 when control of the London Transport Executive was transferred from the Greater London Council to the Government. The Government assumed financial responsibility for LRT from 1985-86.

⁽⁴⁾For details of contributions to the planning total see Table 21.3.8

⁽⁵⁾Government department constituted as a Trading Fund and classified as a public corporation for statistical and planning purposes.

⁽⁶⁾Accountable to local authorities.

⁽⁷⁾The Housing Corporation (Scotland) and the Scottish Special Housing Association are to be merged to form Scottish Homes with effect from 1 April 1989

⁽⁸⁾For details of contributions to the planning total see Table 21.3.9

Nationalised industries

Objectives

3.8. The Government's primary aim for the nationalised industries is to ensure their effectiveness and efficiency as commercial concerns and to strengthen them to the point where they can be transferred to the private sector, or where necessary, remain as successful businesses within the public sector. The financial controls on the nationalised industries have been built on the arrangements which were set out in the 1978 White Paper "The Nationalised Industries" (Cmd 7131). They are designed to minimise the burden which the industries place on the taxpayer, to ensure that they move progressively towards earning an economic return on their assets, and to stimulate the efficiency and effectiveness of their commercial performance

The control framework

3.9. The control framework operates at a number of levels:

- **Strategic objectives** are agreed with each individual industry and provide the framework within which the financial controls and the industries' planning procedures are set. A brief description of the agreed objectives for most industries can be found in the relevant departmental chapters of this White Paper.
- **Investment appraisal and pricing principles.** Most nationalised industries are required to aim at a rate of return on their new investment programmes of 5 per cent in real terms (before payment of interest and tax). This is intended to ensure a proper return on investment in the industries, and at the same time, that the industries do not divert resources away from areas where they could be used more effectively. The required rate of return was first set in 1978, taking into account pre-tax rates of return achieved by private companies and the likely trend in the return on private investment. This trend is reviewed from time to time. To assist forward planning, formal approval is given to industries once investment plans are agreed to commit 100 per cent of their agreed investment for the year ahead, 85 per cent for the second year and 70 per cent for the third year. For some of the industries, **prices** are largely market determined. For those with scope for setting their prices, the financial target will determine the level of prices in the light of

general objectives and the need to cover the continuing costs of supply including an adequate return on capital.

- **Financial targets and performance aims.** Financial targets, usually set for three year periods, are the primary control on the industries. They vary in form, according to the circumstances of the industry. For profitable industries they are usually expressed as a target for current cost operating profits as a proportion of net assets valued at replacement cost. **Table 21.3.6** sets out details of current and recent financial targets and the industries' performance against them. Backing up the financial targets are a series of performance aims, again for three years ahead, relating to costs, and where appropriate, standards of service. Details of performance aims are included in the commentaries on individual industries in the departmental chapters of this White Paper.

- **External financing limits (EFLs)** were introduced in 1976 as an important short-term control on the amount of finance, whether grant or borrowing (including financial leasing), which an industry may raise during the financial year to supplement the income from its trading activities. The industries' total net borrowing comprises net Government lending (loans from departments and the National Loans Fund (NLF), Post Office repayments to departments and public dividend capital (PDC); the industries' net overseas and market borrowing, including short term borrowing; and leasing.

As explained in paragraphs 3.3 and 3.4 above, it is the industries' external finance which is included in the planning total as public expenditure. Where an industry generates a positive cash flow, after financing new investment, it is expected to repay outstanding debt. These industries are set negative EFLs, which reduce the planning total and the PSBR. In addition to the published EFLs for the year immediately ahead, the industries are also given provisional totals for external finance for the rest of the plan period.

- **Monitoring** plays an important role in stimulating and controlling the industries' performance in the interests of the taxpayer and the consumer. In addition to the continuous monitoring by sponsor Ministers and departments of the industries' performance against all aspects of the controls described, the industries are periodically subjected to independent efficiency scrutinies by the Monopolies and Mergers Commission (MMC) under the 1980 Competition Act, which may include review of the effect on the public interest of, for example, a monopoly position.

Recent developments

3.10. The performance of the individual nationalised industries is reviewed in detail in the departmental chapters of this White Paper. In general, industries continued to improve their trading performance. This improvement was particularly marked in the cases of British Steel (now privatised) and British Rail. The water and electricity industries continued to finance their extremely large investment programmes almost entirely from internal resources. Market difficulties continued to affect British Shipbuilders and British Coal.

3.11 Since last year's White Paper was published several further privatisations have been completed including, among the nationalised industries, British Steel and the National Bus Company. British Railways have completed the disposal of ((BREL88, Travellers Fare,)) the Horwich foundry and the railways in the Yale of Rheiddol ((and from Settle to Carlisle.)) The Government has announced its intention to transfer Girobank to the private sector and to privatise the Scottish Bus Group. The Public Utility Transfers and Water Charges Bill received Royal Assent and the Electricity and Water Bills received their Second Reading.

3.12 In the same period, the MMC has published reports on the Welsh Water Authority, the Post Office Counter Services and British Coal's capital investment. The Government has announced a

reference on British Rail's provincial services and forthcoming references on the United Kingdom Atomic Energy Authority, the Northern Ireland Transport Holding Company and London Underground.

**The plans:
external finance**

3.13 The nationalised industries' requirements for external finance depend on the size of their investment programmes, and on their ability to generate their own funds. Investment plans for 1989-90 have been increased by over £650 million. This increase is expected to be substantially financed by increases in internal resources.

3.14 Despite the substantial level of investment planned, total provision for nationalised industries' EFLs is expected to decline in 1989-90 and 1990-91. In 1989-90 an overall net repayment of debt of £32 million is planned, rising to a net repayment of £386 million in 1990-91. Total provision in 1991-92 is planned to increase to £980 million. This increase reflects the disappearance from the public expenditure figures, following privatisation, of the substantial negative external finance of the electricity industry. However, the trend excluding the effects of privatisation remains downward. For the later years, particularly, plans are inevitably uncertain, both in aggregate and for individual industries. The figures depend on general trading conditions and the industries' success in maintaining control over their current costs, especially wage costs. They will also be affected, in the case of some industries, by the precise timing of privatisation. The figures are reviewed each year in the light of the industries' performance and prospects.

Table 21.3.2 Nationalised industries' financing

£million

	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans
Total capital requirements (1)	6,843	4,522	5,708	4,219	4,249	5,476	5,331
Total internal resources	4,569	695	3,998	3,832	3,982	5,250	5,366
Total external finance	2,274	3,827	1,709	386	268	226	-34
of which :							
Borrowing (net) (2)	375	1,102	-641	-1,586	-1,819	-1,133	-1,322
Grants	1,899	2,725	2,350	1,972	2,086	1,359	1,288

(1) Figures for capital requirements in 1990-91 and 1991-92 are given in Table 21.3.4.

(2) Including the capitalised value of certain leased assets.

3.15 EFLs for 1988-89 published in last year's White Paper £687 million. The principal change to date has been an increase of £75 million in the EFL for British Coal. Details are given in the relevant departmental booklet. However there is expected to be an improvement over the original EFLs set for other industries, notably that of the British Steel Corporation in the period up to its privatisation. In consequence, total external finance is expected to be £400 million, substantially below the original provision.

3.16. **Table 21.3.2** shows that the need for external finance has already been reduced from £2.3 billion in 1983-84 to an estimated £0.4 billion outturn in 1988-89 a fall of over 85 per cent in real terms. If industries which have been privatised are excluded from the comparison, the reduction is from £1.9 billion, still a fall of over 80 per cent in real terms. The declining reliance on external sources of finance reflects improvements in the profitability of many of the industries due in large part to considerable successes in increasing productivity and controlling costs. These trends are expected to continue.

3.17. **Table 21.3.2** also shows how external finance is made up from a combination of borrowing (from the National Loans Fund, other public sector sources, from the market, including leasing arrangements, and from overseas) and grants.

3.18. In general, the industries' requirements for external finance are met by borrowing from a variety of sources. Grant is paid either to support specific non-commercial objectives (eg, British Rail's Public Service Obligation grant or grant to London Regional Transport to support public passenger services), to assist an industry in restructuring (eg, grants to British Coal), or where an industry's circumstances make access to the NLF inappropriate (eg, grants to some loss making industries). **Table 21.3.3** sets out further detail, by industry, of grant included in external finance.

Table 21.3.3 Nationalised industries : contribution of grants to internal and external financing

£ million

	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans
Grants included in external finance (1)							
British Coal	731	1,538	907	825	917	477	402
British Railways Board	952	931	932	755	795	595	508
British Waterways Board	40	42	43	44	44	46	48
Civil Aviation Authority	3	3	3	3	3	4	3
Electricity (England and Wales)	11	8	5				
London Regional Transport (2)			323	295	239	190	287
Scottish Transport Group	11	14	19	7	6	5	7
Water (England and Wales)	49	38	29	31	72	22	19
Subtotal (3)	1,797	2,574	2,261	1,960	2,076	1,339	1,274
Industries privatised before 31 March 1989 (4)	102	150	89	13			
Total grants included in external financing	1,899	2,725	2,350	1,972	2,086	1,359	1,288
Grants contributing to internal resources (5)	146	150	156	248	307	253	361

(1) Grants which are generally available to the private sector, such as grants for regional assistance, are not scored within external financing, but are regarded as contributing to internal resources. Grants specific to individual industries are included within external finance.

(2) See Table 21.3.1, note (3).

(3) Total nationalised industries as at 31 March 1989.

(4) Figures include those grants received by industries privatised, abolished or for which plans assume privatisation before 31 March 1989; ie BGC, BT, BAB, BAA BTDB, NBC, BNOC, EO BS (Warships), BSC, BS (Merchant) and Girobank.

(5) See note (1) above. The bulk of these grants are made by local authorities, eg Passenger Transport Executives, to British Railways to meet local transport objectives. Out of total grants of £307 million included in internal resources in 1987-88, British Railways Board accounted for £252 million and Water Authorities received £46 million from the European Regional Development Fund.

capital requirements

3.19. Table 21.3.4 sets out the industries' capital requirements showing each industry's expenditure on fixed assets since 1983-84 and their plans for 1989-90 to 1991-92. The progressive decline in nationalised industries' fixed asset investment from 1984-85 to 1987-88 reflects the transfer of investment by privatised industries from the public to the private sector. When industries which have since been privatised are excluded from the totals it can be seen that investment in fixed assets has increased in each year except 1984-85 when British Coal's investment was substantially affected by the coal strike. Substantial investment by those industries remaining within the public sector will continue, with planned investment of about £5.7 billion in 1989-90. While the privatisation of the water and electricity industries will result in the transfer of their substantial investment to the private sector, in 1990-91 and thereafter, investment by those industries remaining in plans throughout the period 1988-89 to 1991-92 is expected to increase by over £500 million (about 30 per cent).

Table 21.3.4 Nationalised industries' capital requirements

£ million

	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
Expenditure on fixed assets in the UK (1)									
British Coal	720	387	660	650	647	593	575	550	520
British Railways Board	270	343	402	428	543	640	846	877	1,053
British Waterways Board	4	4	5	6	7	8	10	10	6
Civil Aviation Authority	20	19	19	30	32	38	59	75	74
Electricity (England and Wales)	1,389	1,316	1,236	1,175	1,234	1,544	1,782	2,031	
Electricity (Scotland)							212	217	
London Regional Transport (2)			236	248	304	368	486	540	461
North of Scotland Hydro-Electric Board	46	41	46	55	54	65			
Post Office	123	148	146	104	138	163	242	256	272
South of Scotland Electricity Board	419	388	376	377	232	191			
Scottish Transport Group	17	20	18	17	14	15	18	17	21
Water (England and Wales)	823	796	888	1,044	1,186	1,276	1,506		
Subtotal (3)	3,831	3,463	4,032	4,133	4,391	4,902	5,736	(4)	(4)
Industries privatised before 31 March 1989(5)	3,478	2,645	1,406	949	307	329			
Total expenditure on fixed assets	7,309	6,107	5,437	5,082	4,698	5,231	5,736	(4)	(4)
Changes in working capital	-397	-1,440	269	-811	-293	385	-234	-66	148
Other capital requirements (6)	-69	-145	1	-52	-155	-141	-170	-189	-180
Total capital requirements	6,843	4,522	5,708	4,219	4,249	5,476	5,331	(4)	(4)

(1) Including capital value of leased assets.

(2) See Table 21.3.1, note (3).

(3) Total nationalised industries at 31 March 1989.

(4) No totals have been given because the privatisation of Water and electricity in 1990-91 and 1991-92 respectively means that the figures for those years and earlier years would not be on a consistent basis. If the figures for the water and electricity industries are excluded throughout the profile for expenditure

fixed assets is as follows:

1,154	921	1,486	1,483	1,684	1,825	2,236	2,325	2,406
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(5) See Table 21.3.3 note (4).

(6) "Other capital requirements" includes certain BR investment which is not capitalised.

internal resources

3.20. Table 21.3.2 shows the extent to which the industries' capital requirements are expected to be financed internally by commercially generated funds. The main sources of funds are operating profits and depreciation, less payments of tax and interest. Table 21.3.5 shows how the individual industries' profits have contributed to the growth of internal resources and reveals particularly clearly the impact of the 1984-85 coal strike on the industries' finances. The figures also show the progress that has been made since then in improving the contribution of the industries still remaining in the public sector to their own financing.

Table 21.3.5 Nationalised industries' internal resources

£ million

	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	1989-90 plans
Current cost operating profit (1)							
British Coal	-718	-1,901	-147	-546	-647	113	-143
British Railways Board	-873	-1,286	-863	-926	-714	-495	-421
British Waterways Board	-35	-40	-39	-39	-40	-42	-43
Civil Aviation Authority	13	11	-8	20	17	17	10
Electricity (England and Wales)	901	-1,292	944	1,150	(2)	(2)	(2)
London Regional Transport (3)			-183	-191	-142	-142	-79
North of Scotland Hydro-Electric Board			39	35	(2)	(2)	(2)
Post Office	119	127	123	103	144	68	166
South of Scotland Electricity Board	104	46	158	165	(2)	(2)	(2)
Scottish Transport Group	-5	-8	-10	-9	-16	-3	-1
Water (England and Wales)	268	291	430	557	(2)	(2)	(2)
Subtotal (2)(4)	-183	-4,030	444	318	243	1,842	2,185
Industries privatised before 31 March 89 (5)	2,051	1,968	868	324	411	380	
Total current cost operating profit	1,868	-2,062	1,311	641	653	2,222	2,185
Interest, dividends and tax	-2,688	-2,491	-2,217	-1,849	-1,781	-1,668	-2,447
Depreciation etc (6)	4,812	4,370	4,096	4,198	3,905	3,676	4,660
Other receipts and payments (7)	577	878	808	841	1,205	1,019	968
Total internal resources	4,569	695	3,998	3,832	3,982	5,250	5,366

(1) Some industries use historic costs as the basis of their main accounts. Because of this and the exclusion of Government grants for revenue purposes, the figures in this table may differ from those for operating profit in those industries accounts.

(2) Estimated profit figures for Electricity (E&W) the Scottish Electricity Boards and Water (E&W) are not shown separately for 1987-88, 1988-89 or 1989-90 due to impending privatisation. Their estimated profits are, however, included in the total figures.

(3) See Table 21.3.1, note (3).

(4) Total nationalised industries at 31 March 1989.

(5) See Table 21.3.3, note (4).

(6) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving movements of funds.

(7) Includes proceeds from sales of fixed assets (where not credited to privatisation proceeds) and other receipts. See Table 21.3.3 for grants included within internal resources.

Table 21.3.6 Nationalised industries: financial targets

Industry	Current target	Latest achievement ⁽¹⁾
British Coal	By 1988-89: breakeven after restructuring grants ⁽²⁾	1987-88: £540 million loss ⁽²⁾
British Railways Board	By 1989-90: Public Sector Obligation(PSO) grant grant down to £579 million. ⁽³⁾	1987-88 PSO grant £802 million
British Waterways Board	1988-89: Breakeven	1987-88: Breakeven
Civil Aviation Authority	1985-86 to 1988-89: 7% average ⁽⁴⁾⁽⁵⁾	1987-88: 1.8% ⁽⁴⁾⁽⁵⁾
Electricity (England & Wales)	1985-86 to 1987-88: 2.75% ⁽⁴⁾ average 1988-89: 3.75% ⁽⁴⁾ 1989-90: 4.75% ⁽⁴⁾	1985-86 - 1987-88: 2.75% ⁽⁴⁾
London Regional Transport	None ⁽⁶⁾	1987-88: revenue support £46 million ⁽⁷⁾
North of Scotland Hydro-electric Board) South of Scotland Electricity Board)	1988-89 2.8% ⁽⁴⁾ 1988-89: 2.8% ⁽⁴⁾	1982-83 to 1987-88: 2.6% average ⁽⁴⁾
Post Office	1986-87 to 1988-89: 3.25% ⁽⁸⁾	1987-88: 3.9% ⁽⁴⁾
Scottish Transport Group ⁽⁹⁾⁽¹⁰⁾		
(i) Road Passenger	1986 to 1990: average 4% ⁽⁴⁾	1987: -4.7% ⁽⁴⁾
(ii) Shipping	Breakeven after grant ⁽²⁾	1987: £0.3 million profit ⁽²⁾
Water Authorities	1988-89: 2.24%	1987-88: 2.27% ⁽⁶⁾

⁽¹⁾ On same basis as current target, except where specified.

⁽²⁾ Historic cost accounting (HCA) base.

⁽³⁾ 1986-87 prices. Separate target for BR non-supported businesses of 2.7% return before interest on net current cost assets by 1989-90.

⁽⁴⁾ Current cost accounting (CCA) return on average net assets.

⁽⁵⁾ Excludes activities where CAA's charges are determined by international agreement, and the Highlands and Islands Airports.

⁽⁶⁾ In the aftermath of the Kings Cross fire no new targets were set.

⁽⁷⁾ Against a target of £95 million.

⁽⁸⁾ Separate targets are also set for the three constituent businesses of posts: for 1987-88, Letters 2.8%, Parcels 6.7% and Counters 1.2%.

⁽⁹⁾ No overall target is set for Scottish Transport Group.

⁽¹⁰⁾ Calendar year.

Productivity trends

3.21. In 1979, the nationalised industries accounted for about 9 per cent of GDP and 11.5 per cent of investment. They employed over 1.7 million people. Since then, the privatisation programme has substantially reduced the state owned sector of industry. Nonetheless, those industries still in public ownership remain a major presence in the economy, accounting as they do for about 5 per cent of GDP and 6 per cent of investment, and employing just over 750,000 people (see Table 21.1.17). The industries' performance is thus of considerable importance for the country as a whole.

3.22.

3.22. Table 21.3.7 sets out the productivity record of the nationalised industries compared with manufacturing industry, and with the economy as a whole. Since 1980 the nationalised industries have made significant progress in reducing overmanning and improving overall efficiency. This has been reflected in average productivity growth of 4.1 per cent since 1979-80, exceeding that achieved by both manufacturing sector (3.7 per cent) or the economy as a whole

(2.2 per cent) over the same period. These improvements owe a lot to the performance aims set for the industries (generally expressed as targets for reductions in real unit costs) and, for some, to the spur that possible privatisation provides. For example, productivity at British Coal's collieries has increased by some 75 per cent over the last three and a half years, allowing a 30 per cent reduction in real operating costs over the same period. The industries are expected to continue to achieve substantial rates of productivity growth and to secure further cost improvements in order to meet the performance aims set for them.

Table 21.3.7 Nationalised industries' productivity⁽¹⁾

	Annual percentage change		
	Nationalised industries ⁽²⁾⁽³⁾	Manufacturing industries	Whole economy ⁽²⁾⁽⁴⁾
1978-79	3.5	1.8	1.8
1979-80	0.9	0.9	0.8
1980-81	-1.8	-5.3	-3.7
1981-82	2.2	6.8	3.5
1982-83	2.4	6.3	4.0
1983-84	4.7	8.6	3.9
1984-85	5.5	4.7	1.2
1985-86	8.1	1.8	2.8
1986-87	8.3	4.7	3.6
1987-88	6.8	7.5	4.4
Average 1979-80 to 1987-88	4.1	3.7	2.2

⁽¹⁾ Output per person employed.

⁽²⁾ Adjusted for the coal strike.

⁽³⁾ Industries in the public sector at 31 March 1989.

⁽⁴⁾ Excluding north sea and non-trading public sector.

Other public corporations

3.23. In addition to the nationalised industries, there are a number of other corporate enterprises which are publicly owned and controlled and which are similarly granted a substantial degree of independence in the conduct of their day to day business.

3.24. It has always been recognised that the public expenditure treatment of nationalised industries, ie the inclusion of their external finance requirements in the planning total, normally provides a suitable model for other corporations in the public sector, provided that control arrangements reflect the difference in their position. There has been a gradual move in this direction over the years.

3.25. Since last year's public expenditure White Paper it has been decided to merge the Housing Corporation (Scotland) and Scottish Special Housing Association form Scottish Homes (with effect from 1 April 1989); unlike the previous bodies it is Scottish Homes' external finance which is included in the planning total.

3.26. The Government is seeking powers to change the constitution of the General Practice Finance Corporation (GPFC) to allow maximum use of private sector funds. Its borrowing will then no longer score against the planning total. ((The change is not yet reflected in the figures for the GPFC in the tables in this White Paper.))

3.27. **Table 21.3.1** shows the overall contribution of each of the other public corporations to the planning total, whilst **Tables 21.3.8** and **21.3.9** indicate the components of the contributions for 1988-89 and 1989-90.

1989 WHITE PAPER - Financing requirements of other public corporations whose external finance is included in the planning total, 1988-89 and 1989-90

Table 21.3.8

£ million

	1988-89 estimated outturn			1989-90 plans				
	Government subsidies and capital grants	Net borrowing from Government (NLF,PDC etc)	Market, overseas and leasing	Total external finance	Government subsidies and capital grants	Net borrowing from Government (NLF,PDC etc)	Market, overseas and leasing	Total external finance
The Audit Commission								
British Technology Group								
Cable Authority		32		32		30		30
Commonwealth Development Corporation								
Covent Garden Market Authority		-1		-1		-1		-1
The Crown Agents								
The Crown Agents Holding and realisation Board								
The Crown Suppliers ⁽¹⁾								
Development Board for Rural Wales	11	1		12	12			12
English Industrial Estates Corporation	19			19	19			19
General Practice Finance Corporation		10		10				10
Her Majesty's Stationery Office ⁽¹⁾		-7		-7		-7		-7
Highlands and Islands Development Board	32			32	30			30
Housing Action Trusts	5			5	50			50
Letchworth Garden City		50		50		46		46
Local Authority Public transport and Airport Companies ⁽²⁾								
National Film Finance Corporation			6	6		1	-9	-7
Northern Ireland Electricity Service								
Northern Ireland Housing Executive	209	91		301	191	100		291
Northern Ireland Public Trust Port Authorities	19			19	19			19
Northern Ireland Transport Holding Company								
Oil and Pipelines Agency								
The Pilotage Commission								
Royal Mint ⁽¹⁾								
Royal Ordnance plc								
Scottish Development Agency	89	9		98	96	6		102
Scottish Homes ⁽³⁾					189	1		190
United Kingdom Atomic Energy Authority ⁽¹⁾		-22		-22		-7		-7
Urban Development Corporations	225			226	237			237
Welsh Development Agency	60	3	2	65	57	4	2	63
The Welsh Fourth Channel Authority								
	670	167	8	844	900	174	-6	1,067

⁽¹⁾ Government department constituted as a Trading Fund and classified as a public corporation for statistical and planning purposes.

⁽²⁾ Provision has not been allocated between net lending by the parent authority and market and overseas borrowing (including leasing) by the company.

⁽³⁾ Formed by the merging of the Housing Corporation (Scotland) and the Scottish Housing Association with effect from 1 April 1989. Details of the contribution to the planning total of these bodies which were not accorded external finance treatment, in 1988-89 is shown in Table 21.3.9

1989 WHITE PAPER – Contributions to the planning total of public corporations not given external finance treatment, 1988–89 and 1989–90

Table 21.3.9

£ million

	1988–89 estimated outturn				1989–90 plans			
	Grants and loans	Subsidies	Capital expenditure	Total	Grants and loans	Subsidies	Capital expenditure	Total
Bank of England								
British Broadcasting Corporation								
Housing Corporation (Scotland) ⁽¹⁾		3	15	17				
Independent Broadcasting Authority		4		4		1		1
National Dock Labour Board								
New Town Development corporations and the Commission for New Towns		129	-274	-144		133	-128	5
Public Trust Ports ⁽²⁾		24	21	46				
Scottish Special Housing Association ⁽¹⁾								
Total		160	-238	-78		133	-128	6

* Not included in the public expenditure planning total.

⁽¹⁾ These bodies merged to form Scottish Homes with effect from 1 April 1989. Scottish Homes has been accorded external finance treatment and details of its contribution to the planning total is shown in Table 21.3.8

⁽²⁾ Until classified to the private sector in 1985-86, the capital expenditure of the Public Trust Ports was included in the planning total.

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Bibliographies for individual industries can be found in the chapters of this White Paper covering sponsor departments.

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Table 21.4.9 Public sector capital spending, 1978-79 to 1991-92

4. Historical trends

4.1. Most of this White Paper concentrates on the future years, set in the context of outturn for the last five years and estimated outturn for the current year. However, it is also of interest to see recent trends set into the perspective of a longer run of years. Changes in coverage and changes of classification (such as those referred to in paragraphs 1.82 and 1.83 of **Section 1**), mean that figures in successive White Papers are not necessarily on the same basis. The figures in this section have been adjusted to current definitions.

Public expenditure

4.2. **Table 21.4.1** shows trends in the planning total on current definitions for the period 1973-74 to 1991-92. It also presents figures for general government expenditure, both including and excluding privatisation proceeds, over the period 1963-64 to 1991-92. In particular it gives general government expenditure as a percentage of gross domestic product (GDP).

4.3. General government expenditure is often expressed as a percentage of GDP. By calculating this percentage over a number of years, growth in government spending may be compared with growth in the economy as a whole. The percentage also gives an indication of the extent to which the Government has to raise taxation and borrow and is the statistic most widely used in international comparisons.

4.4. The figures for general government expenditure for the years up to 1987-88 are taken from the national accounts compiled by the Central Statistical Office (CSO). The CSO database also includes figures for the calculation of GDP deflators at market prices and money GDP(A) at market prices, thus enabling the real terms figures and percentages in **Table 21.4.1** to be calculated. Figures for 1988-89 onwards are forecasts produced by the Treasury. Details of the deflators and money GDP figures used throughout this White Paper are also shown in **Table 21.4.1**.

4.5. Figures for general government expenditure back to 1950 and general government expenditure as a percentage of GDP back to 1890 are contained in an article entitled "Long term trends in public expenditure" published in the October 1987 issue of Economic Trends. The article briefly discusses the reasons for the fluctuations in government spending over this period, explains that definitions have also changed over the years and illustrates the trends graphically.

Departmental spending

4.6. Although historical figures for the planning total are available back to 1973-74, departmental components of this total are not available on a consistent basis prior to 1978-79. **Table 21.4.2** shows figures for the main overall departmental aggregates; corresponding figures in real terms are shown in **Table 21.4.3**. Figures for each spending authority and the departmental components of central government spending are shown in cash and real terms in **Tables 21.4.4** and **21.4.5** respectively.

Functional spending

4.7. **Table 21.4.6** shows a United Kingdom functional breakdown of the planning total over the period 1978-79 to 1991-92. It covers the main functional categories shown in **Table 21.1.7** in **Section 1**. Figures in real terms are shown in **Table 21.4.7**. The proportion of departmental spending on each main functional category for each year from 1978-79 to 1991-92 is shown in **Table 21.4.8**.

Public sector capital

4.8. **Table 21.4.9** illustrates trends in public sector capital spending. It uses the wider definition of capital spending described in paragraphs 1.37 to 1.44 of **Section 1**. Figures for the future years have been omitted from this table because of changes in coverage arising from the Government's privatisation programme; these figures, with an explanation of the changes in coverage, are given in **Section 1**.

Table 21.4.1 Public expenditure, 1963-64 to 1991-92

Year	Planning total ⁽¹⁾		General government expenditure				General government expenditure (excluding privatisation proceeds)			Money GDP £ billion cash	GDP deflators (1987-88 =100)
	£ billion		£ billion				£ billion				
	Cash	Real terms ⁽²⁾	Cash spending on goods and services only	Total	Real terms ⁽²⁾	% of GDP	Cash	Real terms ⁽²⁾	% of GDP		
1963-64			6.5	11.3	87.9	36¼	11.3	87.9	36¼	31.4	12.9
1964-65			7.0	12.3	91.7	36	12.3	91.7	36	34.1	13.4
1965-66			7.7	13.6	96.8	37¼	13.6	96.8	37¼	36.6	14.1
1966-67			8.5	15.1	102.8	38¼	15.1	102.8	38¼	38.8	14.6
1967-68			9.4	17.5	115.5	42¼	17.5	115.5	42¼	41.2	15.1
1968-69			9.9	18.2	115.2	41	18.2	115.2	41	44.6	15.8
1969-70			10.4	19.3	115.6	40¼	19.3	115.6	40¼	48.0	16.7
1970-71			11.9	21.6	119.8	40¼	21.6	119.8	40¼	53.1	18.0
1971-72			13.4	24.4	123.3	41	24.4	123.3	41	59.2	19.8
1972-73			15.2	27.6	129.9	41	27.6	129.9	41	67.5	21.3
1973-74	29.3	128.6	17.9	32.0	140.5	42¼	32.0	140.5	42¼	74.8	22.8
1974-75	39.3	144.6	22.9	42.9	157.6	48¼	42.9	157.6	48¼	89.1	27.2
1975-76	48.8	142.9	29.4	53.8	157.5	48½	53.8	157.5	48½	110.8	34.2
1976-77	54.4	140.8	32.9	59.6	154.1	46	59.6	154.1	46	129.4	38.7
1977-78	56.8	129.1	35.2	63.9	145.0	42¼	64.4	146.3	42¼	150.8	44.0
1978-79	65.7	134.9	39.0	75.0	153.8	43¼	75.0	153.8	43¼	173.1	48.7
1979-80	77.6	136.2	46.5	89.9	157.9	43¼	90.3	158.6	43½	207.6	57.0
1980-81	92.7	137.4	56.7	108.6	160.9	46	109.0	161.5	46	236.6	67.5
1981-82	104.0	140.4	61.1	120.5	162.6	46¼	121.0	163.3	46½	259.9	74.1
1982-83	113.6	143.0	67.4	132.6	167.0	46½	133.1	167.6	46¾	284.6	79.4
1983-84	120.4	145.0	72.9	140.4	169.2	45½	141.6	170.5	45¾	308.6	83.0
1984-85	129.9	148.9	78.4	150.6	172.7	45½	152.8	175.2	46¼	330.5	87.2
1985-86	133.8	145.6	82.7	158.2	172.1	43¾	160.9	175.0	44½	361.1	91.9
1986-87	139.3	146.7	87.3	164.4	173.1	42¾	168.9	177.8	43¾	385.7	95.0
1987-88	145.7	145.7	93.6	171.5	171.5	40½	176.7	176.7	41½	424.5	100.0
1988-89	153.6	144.6		180.9	170.2	38½	186.9	175.9	39¾	471	106.2
1989-90	167.1	149.7		193.7	173.6	38¼	198.7	178.1	39¼	508	111.6
1990-91	179.4	155.4		205.0	177.5	38	210.0	181.9	39	539	115.5
1991-92	191.6	161.1		216.0	181.6	38	221.0	185.8	33¾	569	118.9

⁽¹⁾ Planning total figures are only available on a consistent basis from 1973-74. Figures are estimated outturn for 1988-89, plans for 1989-90 onwards.

⁽²⁾ Cash figures adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices.

Table 21.4.2 Planning total by department, 1978-79 to 1991-92

	1978-79 outturn	1979-80 cutturn	1980-81 outturn	1981-82 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	£ billion 1991-92 plans
Defence	7.5				14.4	15.5	17.2	18.0	18.1	18.8	19.2	20.0	20.6	
Foreign and Commonwealth Office ⁽¹⁾	1.0				1.5	1.7	1.8	1.8	1.9	2.0	2.2	2.2	2.3	
European Communities	0.8				0.6	0.8	1.0	0.8	1.4	0.8	1.5	1.3		
Ministry of Agriculture, Fisheries and Food ⁽¹⁾	0.8				0.8	2.0	2.0	2.4	1.8	2.1	2.2	2.3	2.5	
Trade and Industry ⁽¹⁾	2.1				2.2	1.7	2.0	1.8	2.3	1.1	1.4	1.3	1.3	
Energy	0.6				0.9	1.1	2.6	0.7	-0.2	0.3	0.1	-0.2	-0.4	
Employment	1.1				2.4	2.9	3.1	3.4	3.9	4.0	4.2	4.3	4.4	
Transport	2.6				4.3	4.3	4.6	4.6	4.7	4.7	5.1	5.1	5.2	
DOE-Housing	3.6				2.7	3.2	3.3	3.0	2.6	2.4	3.0	3.0	3.0	
DOE-Other environmental services ⁽¹⁾	2.2				3.5	3.8	3.9	3.9	3.9	4.0	3.8	4.0	4.1	
Home Office ⁽¹⁾	2.0				4.2	4.6	5.2	5.3	5.8	6.7	7.0	7.3	7.6	
Education and Science	7.8				12.7	13.4	13.9	14.4	15.7	17.2	18.0	18.6	19.2	
Arts and Libraries	0.3				0.6	0.6	0.7	0.7	0.8	0.9	0.9	1.0	1.0	
Health	7.4				13.9	14.7	15.8	16.6	17.9	19.6	20.7	21.7	22.7	
Social security	16.4				32.5	35.2	38.1	41.5	44.4	46.4	48.5	51.1	53.6	
Scotland, Wales and Northern Ireland	7.6				12.6	13.3	13.9	14.4	15.4	16.4	17.1	17.5	17.9	
Chancellor's departments ⁽¹⁾														
Other departments ⁽¹⁾	1.9				3.3	2.6	2.8	3.0	3.4	3.8	4.1	4.3	4.4	
Reserve											3.5	7.0	10.5	
Privatisation proceeds					-0.4	-4.4	-5.0	-5.0	-5.0	-5.0				
Adjustment ⁽¹⁾													0.5	
Planning total	65.7				113.5	120.3	129.8	133.7	139.2	147.2	156.8	167.1	176.1	

⁽¹⁾ See footnotes to Table 21.1.1.

Table 21.4.3 Planning total in real terms⁽¹⁾ by department, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	£ billion (base year 1987-88)		
												1989-90 plans	1990-91 plans	1991-92 plans
Defence	14.6	15.3	15.7	16.1	17.1	17.6	18.8		18.5	18.1	17.6	17.7	17.7	
Foreign and Commonwealth Office ⁽²⁾	2.0	2.0	1.9	1.9	1.8	1.9	2.0	1.9	1.9	2.0	2.0	2.0	2.0	
European Communities	1.5	1.4	0.2	0.1	0.7	1.0	1.1	0.8	1.3	0.7	1.3	1.1		
Ministry of Agriculture, Fisheries and Food ⁽²⁾	1.5	1.7	1.9	1.7	2.1	2.3	2.2	2.5	1.8	2.0	2.0	2.1	2.2	
Trade and Industry ⁽²⁾	4.1	3.3	3.1	3.8	2.6	2.0	2.2	1.9	2.3	1.0	1.3	1.2	1.1	
Energy	1.1	0.9	0.9	1.4	1.1	1.3	2.8	0.7	-0.2	0.3	0.1	-0.2	-0.4	
Employment	2.1	2.1	2.8	2.9	2.9	3.3	3.4	3.5	3.9	3.8	3.9	3.8	3.8	
Transport	5.1	5.4	5.5	5.4	5.2	4.9	5.0	4.8	4.7	4.5	4.7	4.5	4.5	
DOE-Housing	7.0	7.5	6.3	4.0	3.2	3.6	3.6	3.1	2.6	2.4	2.8	2.7	2.6	
DOE-Other environmental services ⁽²⁾	4.4	4.5	4.4	4.0	4.2	4.3	4.3	4.0	3.9	3.8	3.5	3.5	3.5	
Home Office ⁽²⁾	3.9	4.2	4.4	4.8	5.0	5.2	5.6	5.5	5.8	6.4	6.4	6.5	6.5	
Education and Science	15.1	14.9	15.3	15.1	15.2	15.3	15.2	14.8	15.7	6.5	16.5	16.5	16.5	
Arts and Libraries	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Health	14.5	14.8	16.0	16.3	16.5	16.8	17.2	17.1	17.9	18.8	19.0	19.2	9.5	
Social security	32.0	32.3	33.0	36.5	38.7	40.1	41.6	42.7	44.4	44.5	44.5	45.3	46.1	
Scotland, Wales and Northern Ireland	14.8	15.1	15.0	14.9	15.0	15.2	15.2	14.8	15.8	15.7	15.5	15.4		
Chancellor's departments ⁽²⁾														
Other departments ⁽²⁾	3.6	3.7	3.7	3.9	3.9	2.9	3.1	3.1	3.4	3.6	3.7	3.8	3.8	
Reserve											3.2	6.2	9.0	
Privatisation proceeds		-0.6	-0.6	-0.6	-0.6	-1.3	-2.3	-2.8	-4.4	-4.8	-4.6	-4.4	-4.3	
Adjustment ⁽²⁾										0.5				
Planning total	127.9	129.1	130.1	133.0	135.4	137.2	141.8	137.7	139.2	141.2	143.9	148.2	151.6	

⁽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.

⁽²⁾ See footnotes to Table 21.1.1.

Table 21.4.4 Planning total by spending authority and department, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 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	£ billion 1991-92 plans
Central government⁽¹⁾	44.5	52.3	63.7	73.3	81.8	85.0	92.0	98.4	104.6	109.7	114.2	120.2	124.7	
<i>Of which:</i>														
Defence	7.5	9.2	11.2	12.6	14.4	15.5	17.1	17.9	18.2	18.8	19.2	20.0	20.6	
Foreign and Commonwealth Office ⁽²⁾	1.0	1.2	1.3	1.4	1.5	1.6	1.8	1.8	1.9	2.0	2.1	2.2	2.3	
European Communities	0.8	0.8	0.2	0.1	0.6	0.8	1.0	0.8	1.1	1.4	0.8	1.5	1.3	
Ministry of Agriculture, Fisheries and Food ⁽²⁾	0.6	0.8	1.1	1.1	1.5	1.8	1.8	2.3	1.6	1.9	2.0	2.1	2.3	
Trade and Industry ⁽²⁾	1.2	0.8	1.0	1.7	1.8	1.3	1.6	1.4	2.1	1.2	1.4	1.4	1.3	
Energy	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.9	0.9	0.6	0.5	0.5	0.4	
Employment	1.0	1.2	1.9	2.1	2.3	2.8	3.0	3.2	3.8	3.8	4.1	4.2	4.2	
Transport	0.5	0.6	0.7	0.9	1.1	1.0	1.2	1.2	1.3	1.4	1.5	1.5	1.5	
DOE-Housing	1.5	1.8	2.2	1.6	1.4	1.1	1.1	1.2	1.3	1.3	1.3	1.4	1.5	
DOE-Other environmental services ⁽²⁾	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	
Home Office ⁽²⁾	0.5	0.6	0.8	0.9	1.0	1.2	1.3	1.4	1.6	1.9	2.1	2.2	2.3	
Education and Science	1.1	1.4	1.7	1.8	2.1	2.2	2.2	2.4	2.5	2.7	2.9	3.1	3.2	
Arts and Libraries	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5	
Health	6.3	7.5	9.7	10.9	11.8	12.5	13.4	14.2	15.2	16.5	17.5	18.5	19.3	
Social security	16.2	19.1	23.1	28.0	31.4	32.6	35.2	38.3	40.9	42.6	44.5	46.9	49.1	
Scotland, Wales and Northern Ireland	3.9	4.6	5.7	6.3	6.7	6.9	7.3	7.7	8.4	8.9	9.4	9.7	10.1	
Chancellor's departments	1.1	1.3	1.5	1.7	1.9	1.6	1.7	1.9	2.1	2.3	2.5	2.6	2.7	
Other departments ⁽²⁾	0.8	0.9	1.0	1.4	1.4	0.9	1.1	1.2	1.3	1.5	1.6	1.7	1.7	
Local authorities⁽¹⁾	17.9	21.5	25.0	26.6	29.1	33.2	34.9	35.4	37.9	40.9	42.6	44.0	45.2	
<i>Of which:</i>														
Relevant expenditure	13.2	15.7	19.1	21.3	23.1	24.7	26.0	26.7	29.4	32.1	33.2	34.3	35.4	
Other current	1.0	1.2	1.5	1.9	2.3	3.9	4.2	4.5	4.8	5.1	5.4	5.7	5.9	
Capital	3.6	4.6	4.4	3.4	3.7	4.6	4.7	4.2	3.7	3.7	4.0	4.0	3.9	
Public corporations	3.3	4.1	4.4	4.6	3.1	3.2	4.9	2.6	1.1	1.1	1.4	0.9	0.6	
<i>Of which:</i>														
Nationalised industries	2.3	3.0	3.2	3.6	2.1	2.3	3.8	1.7	0.4	0.5	0.7		-0.4	
Other public corporations	0.9	1.1	1.1	1.1	0.9	1.0	1.1	0.9	0.8	0.6	0.8	1.0	1.0	
Reserve											3.5	7.0	10.5	
Privatisation proceeds		-0.4	-0.4	-0.5	-0.5	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0	-5.0	-5.0	
Adjustment ⁽²⁾										0.5				
Planning total	65.7	77.6	92.6	104.0	113.5	120.3	129.8	133.7	139.2	147.2	156.8	167.1	176.1	

⁽¹⁾ Excludes finance for public corporations.

⁽²⁾ See footnotes to Table 21.1.

Table 21.4.5 Planning total in real terms⁽¹⁾ by spending authority and department, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 estimated outturn	£ billion (base year 1987-88)		
												1989-90 plans	1990-91 plans	1991-92 plans
Central government⁽²⁾	86.6	87.0	89.4	93.7	97.6	97.0	100.5	101.4	104.6	105.2	104.8	106.6	107.4	
<i>Of which:</i>														
Defence	14.6	15.3	15.7	16.1	17.2	17.6	18.7	18.5	18.2	18.1	17.6	17.7	17.7	
Foreign and Commonwealth Office ⁽³⁾	2.0	1.9	1.9	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	
European Communities	1.5	1.4	0.2	0.1	0.7	1.0	1.1	0.8	1.1	1.3	0.7	1.3	1.1	
Ministry of Agriculture, Fisheries and Food ⁽³⁾	1.3	1.3	1.5	1.4	1.8	2.1	2.0	2.3	1.6	1.8	1.8	1.9	2.0	
Trade and Industry ⁽³⁾	2.4	1.3	1.4	2.2	2.1	1.5	1.7	1.4	2.1	1.2	1.3	1.2	1.1	
Energy	0.4	0.3	0.4	0.5	0.5	0.6	0.6	0.9	0.9	0.6	0.5	0.4	0.4	
Employment	2.0	2.0	2.6	2.7	2.7	3.2	3.3	3.3	3.8	3.7	3.8	3.7	3.6	
Transport	0.9	1.0	1.0	1.1	1.3	1.2	1.3	1.3	1.3	1.4	1.3	1.3	1.3	
DOE-Housing	3.0	3.0	3.1	2.1	1.7	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.3	
DOE-Other environmental services ⁽³⁾	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	
Home Office ⁽³⁾	0.9	0.9	1.1	1.2	1.2	1.3	1.4	1.5	1.6	1.8	1.9	2.0	2.0	
Education and Science	2.2	2.3	2.4	2.3	2.5	2.5	2.5	2.4	2.5	2.6	2.7	2.7	2.7	
Arts and Libraries	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	
Health	12.3	12.5	13.6	13.9	14.1	14.3	14.6	14.6	15.2	15.9	16.1	16.4	16.6	
Social security	31.5	31.8	32.4	35.8	37.5	37.2	38.5	39.4	40.9	40.9	40.8	41.6	42.3	
Scotland, Wales and Northern Ireland	7.7	7.6	8.0	8.0	8.1	7.9	8.0	8.0	8.4	8.6	8.6	8.6	8.6	
Chancellor's departments ⁽³⁾	2.1	2.1	2.1	2.2	2.2	1.9	1.8	1.9	2.1	2.2	2.3	2.3	2.3	
Other departments ⁽³⁾	1.5	1.6	1.4	1.7	1.7	1.1	1.2	1.3	1.4	1.5	1.5	1.5		
Local authorities⁽²⁾	34.9	35.9	35.1	34.0	34.8	37.9	38.2	36.4	37.9	39.3	39.1	39.0	38.9	
<i>Of which:</i>														
Relevant expenditure	25.7	26.2	26.8	27.2	27.6	28.2	28.4	27.5	29.4	30.8	30.5	30.4	30.4	
Other current	2.0	2.0	2.1	2.4	2.7	4.4	4.6	4.6	4.8	4.9	5.0	5.0	5.1	
Capital	7.1	7.6	6.2	4.4	4.4	5.3	5.1	4.3	3.7	3.6	3.7	3.5	3.4	
Public corporations	6.4	6.9	6.1	5.9	3.6	3.7	5.4	2.7	1.1	1.0	1.3	0.8	0.5	
<i>Of which:</i>														
Nationalised industries	4.6	5.0	4.5	4.5	2.6	2.6	4.2	1.8	0.4	0.4	0.6	0.0	-0.3	
Other public corporations	1.8	1.9	1.6	1.4	1.1	1.1	1.2	0.9	0.8	0.6	0.7	0.9	0.9	
Reserve											3.2	6.2	9.0	
Privatisation proceeds		-0.6	-0.6	-0.6	-0.6	-1.3	-2.3	-2.8	-4.4	-4.8	-4.6	-4.4	-4.3	
Adjustment ⁽³⁾										0.5				
Planning total	127.9	129.1	130.1	133.0	135.4	137.2	141.8	137.7	139.2	141.2	143.9	148.2	151.6	

⁽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.

⁽²⁾ Excludes finance for public corporations.

⁽³⁾ See footnotes to Table 21.1.1.

Table 21.4.6 Planning total by function, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 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	£ billion 1991-92 plans
Defence	7.5	9.2	11.2	12.6	14.4	15.5	17.2	18.0	18.1	18.8	19.2	20.0	20.6	
Overseas services, including overseas aid	1.8	2.0	1.5	1.6	2.1	2.5	2.8	2.7	3.0	3.5	3.0	3.7	3.6	
Agriculture, fisheries, food and forestry	1.0	1.3	1.6	1.7	2.2	2.4	2.4	2.9	2.2	2.5	2.7	2.8	3.0	
Trade, industry, energy and employment	4.5	4.6	5.8	7.4	6.6	6.8	8.9	7.0	7.2	6.3	6.7	6.2	5.9	
<i>Of which: Employment and training</i>	<i>1.1</i>	<i>1.3</i>	<i>1.9</i>	<i>2.2</i>	<i>2.2</i>	<i>2.8</i>	<i>3.0</i>	<i>3.2</i>	<i>3.7</i>	<i>3.8</i>	<i>4.0</i>	<i>4.1</i>	<i>4.2</i>	
Arts and libraries	0.4	0.5	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.1	1.1	
Transport	3.2	3.9	4.7	5.1	5.2	5.3	5.5	5.6	5.7	5.8	6.2	6.2	6.4	
Housing	4.5	5.7	5.7	4.2	3.8	4.4	4.4	4.1	3.8	3.7	4.2	4.2	4.3	
Other environmental services	2.8	3.4	3.9	4.0	4.5	4.8	4.9	4.9	5.0	5.2	5.1	5.3	5.4	
Law, order and protective services	2.4	3.1	3.8	4.5	4.9	5.4	6.1	6.3	6.9	7.8	8.3	8.7	9.0	
Education and science	9.5	10.9	13.3	14.4	15.6	16.4	17.0	17.5	19.2	20.9	21.9	22.7	23.3	
Health and personal social services	9.2	11.1	14.1	15.8	17.2	18.3	19.6	20.7	22.3	24.3	25.7	26.9	28.1	
<i>Of which: Health</i>	<i>7.8</i>	<i>9.4</i>	<i>12.0</i>	<i>13.5</i>	<i>14.7</i>	<i>15.5</i>	<i>16.7</i>	<i>17.6</i>	<i>18.9</i>	<i>20.6</i>	<i>21.8</i>	<i>22.9</i>	<i>24.0</i>	
Social security	16.9	20.0	24.2	29.5	33.5	36.3	39.3	42.8	45.8	47.9	50.0	52.7	55.3	
Miscellaneous expenditure ⁽¹⁾	1.9	2.3	2.7	3.2	3.4	2.7	3.0	3.2	3.6	4.0	4.3	4.5	4.7	
Total of above	65.7	77.9	93.0	104.5	114.0	121.5	131.9	136.4	143.7	151.7	158.3	165.1	170.6	
Reserve											3.5	7.0	10.5	
Privatisation proceeds		-0.4	-0.4	-0.5	-0.5	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0	-5.0	-5.0	
Adjustment ⁽²⁾										0.5				
Planning total	65.7	77.6	92.6	104.0	113.5	120.3	129.8	133.7	139.2	147.2	156.8	167.1	176.1	

⁽¹⁾ Includes local authority current expenditure not allocated to function.

⁽²⁾ See paragraph 1.19(iii).

Table 21.4.7 Planning total in real terms⁽¹⁾ by function, 1978-79 to 1991-92

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	£ billion (base year 1987-88)		
	outturn	outturn	outturn	outturn	outturn	outturn	outturn	outturn	outturn	outturn	estimated outturn	1989-90 plans	1990-91 plans	1991-92 plans
Defence	14.6	15.3	15.7	16.1	17.1	17.6	18.8	18.5	18.1	18.1	17.6	17.7	17.7	
Overseas services, including overseas aid	3.5	3.4	2.1	2.0	2.5	2.9	3.0	2.7	3.0	3.3	2.7	3.3	3.1	
Agriculture, fisheries, food and forestry	2.0	2.1	2.3	2.1	2.6	2.8	2.6	3.0	2.2	2.4	2.4	2.5	2.6	
Trade, industry, energy and employment	8.7	7.7	8.1	9.4	7.9	7.7	9.7	7.2	7.2	6.0	6.2	5.5	5.1	
<i>Of which: Employment and training</i>	2.1	2.1	2.7	2.9	2.7	3.1	3.2	3.3	3.7	3.6	3.7	3.6	3.6	
Arts and libraries	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	
Transport	6.3	6.5	6.6	6.5	6.3	6.0	6.1	5.8	5.7	5.6	5.7	5.5	5.5	
Housing	8.8	9.4	8.0	5.4	4.5	5.0	4.8	4.2	3.8	3.5	3.8	3.7	3.7	
Other environmental services	5.5	5.6	5.5	5.1	5.3	5.4	5.4	5.1	5.0	5.0	4.6	4.7	4.7	
Law, order and protective services	4.7	5.1	5.3	5.7	5.9	6.2	6.7	6.5	6.9	7.5	7.7	7.7	7.7	
Education and science	18.4	18.2	18.6	18.5	18.6	18.7	18.6	18.1	19.2	20.1	20.1	20.1	20.1	
Health and personal social services	18.0	18.4	19.9	20.2	20.6	20.9	21.4	21.3	22.3	23.3	23.6	23.9	24.2	
<i>Of which: Health</i>	15.3	15.6	16.8	17.3	17.5	17.7	18.2	18.2	18.9	19.7	20.0	20.3	20.7	
Social security	32.9	33.3	33.9	37.7	39.9	41.4	42.9	44.1	45.8	45.9	45.9	46.8	47.6	
Miscellaneous expenditure ⁽²⁾	3.8	3.8	3.8	4.1	4.0	3.1	3.3	3.3	3.6	3.8	3.9	4.0	4.0	
Total of above	127.9	129.7	130.6	133.6	136.0	138.5	144.1	140.5	143.7	145.5	145.3	146.4	146.9	
Reserve											3.2	6.2	9.0	
Privatisation proceeds		-0.6	-0.6	-0.6	-0.6	-1.3	-2.3	-2.8	-4.4	-4.8	-4.6	-4.4	-4.3	
Adjustment ⁽³⁾										0.5				
Planning total	127.9	129.1	130.1	133.0	135.4	137.2	141.8	137.7	139.2	141.2	143.9	148.2	151.6	

⁽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.

⁽²⁾ Includes local authority current expenditure not allocated to function.

⁽³⁾ See paragraph 1.19(iii).

Table 21.4.8 Departmental spending⁽¹⁾ by function, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 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	percentages 1991-92 plans
Defence	11.4	11.8	12.0	12.0	12.6	12.7	13.0	13.2	12.6	12.4	12.1	12.1	12.1	
Overseas services, including overseas aid	2.7	2.6	1.6	1.5	1.8	2.1	2.1	2.0	2.1	2.3	1.9	2.3	2.1	
Agriculture, fisheries, food and forestry	1.6	1.6	1.8	1.6	1.9	2.0	1.8	2.1	1.5	1.6	1.7	1.7	1.7	
Trade, industry, energy and employment	6.8	6.0	6.2	7.0	5.8	5.6	6.7	5.1	5.0	4.1	4.3	3.8	3.4	
<i>Of which: Employment and training</i>	1.6	1.6	2.1	2.1	2.0	2.3	2.2	2.3	2.6	2.5	2.6	2.5	2.4	
Arts and libraries	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	
Roads and transport	4.9	5.0	5.1	4.9	4.6	4.4	4.2	4.1	4.0	3.8	3.9	3.8	3.7	
Housing	6.9	7.3	6.1	4.0	3.3	3.6	3.3	3.0	2.6	2.4	2.6	2.5	2.5	
Other environmental services	4.3	4.4	4.2	3.8	3.9	3.9	3.7	3.6	3.5	3.4	3.2	3.2	3.2	
Law, order and protective services	3.7	3.9	4.1	4.3	4.3	4.5	4.6	4.6	4.8	5.2	5.3	5.3	5.3	
Education and science	14.4	14.0	14.3	13.8	13.6	13.5	12.9	12.9	13.4	13.8	13.8	13.7	13.7	
Health and personal social services	14.0	14.2	15.2	15.2	15.1	15.1	14.9	15.2	15.5	16.0	16.2	16.3	16.5	
<i>Of which: Health</i>	11.9	12.0	12.9	12.9	12.9	12.8	12.6	12.9	13.1	13.6	13.8	13.9	14.1	
Social security	25.8	25.7	26.0	28.2	29.3	29.9	29.8	31.4	31.9	31.5	31.6	32.0	32.4	
Miscellaneous expenditure ⁽²⁾	3.0	3.0	2.9	3.0	3.0	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.8	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

⁽¹⁾ Planning total less the Reserve, privatisation proceeds and overall adjustment item.

⁽²⁾ Includes local authority current expenditure not allocated to function.

Table 21.4.9 Public sector capital spending, 1978-79 to 1991-92

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 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	£ billion 1991-92 plans
Central government	4.5	5.4	6.7	7.5	8.5	9.3	10.1	10.5	10.6	10.9	11.1			
<i>Of which:</i>														
Defence	1.8	2.4	3.2		3.7	4.2	4.7	5.4	5.6	5.4	5.7			
Transport	0.3	0.4	0.5	0.6	0.7	0.6	0.7	0.7	0.8	0.9	0.9			
DOE - Housing	0.5	0.5	0.5	0.4	0.5	0.9	0.8	0.8	0.7	0.7	0.7			
Other	1.8	2.1	2.6	2.9	3.1	3.0	3.3	3.4	3.7	3.7	3.9			
Local authorities	3.7	4.5	4.8	4.5	5.6	6.6	6.8	6.2	6.2	6.7	6.5			
<i>Of which:</i>														
Transport	0.4	0.5	0.6	0.6	0.7	0.8	0.8	0.7	0.6	0.6	0.7			
DOE - Housing	1.7	2.0	1.9	1.6	2.2	2.9	2.9	2.5	2.3	2.6	2.7			
DOE - Other environmental services	0.4	0.5	0.7	0.6	0.8	0.8	1.0	0.9	1.0	1.1	0.8			
Other	1.2	1.5	1.7	1.7	1.9	2.2	2.1	2.1	2.2	2.5	2.3			
Public corporations⁽¹⁾	3.3	3.8	4.3	4.5	4.7	4.9	4.7	5.1	5.2	5.3	5.9			
<i>Of which:</i>														
Nationalised industries	2.7	3.0	3.4	3.6	3.8	4.0	3.7	4.1	4.2	4.3	4.8			
Other public corporations	0.6	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1			
Total public sector capital spending	11.5	13.7	15.8	16.6	18.7	20.8	21.6	21.8	21.9	22.9	23.5			
Real terms (base year 1987-88)	22.4	22.7	22.2	21.2	22.3	23.7	23.5	22.5	21.9	22.0	21.5			

⁽¹⁾ Includes nationalised industries except those that have been, or are about to be, privatised.

Section Five Notes and glossary

Page

The planning total and general government expenditure

Table 21.5.1 Planning total and general government expenditure

Glossary

5. Notes and glossary

5.1 This section contains:

- (i) An explanation of the relationship between the planning total and national accounts concepts, and in particular the planning total's relationship with general government expenditure (Table 21.5.1).
- (ii) A glossary of terms used throughout the White Paper.

The planning total and general government expenditure

5.2 The definitions used for public expenditure control are closely related to national accounts practice. There are two key reasons for differences between the public expenditure planning total and general government expenditure: firstly the planning total is defined primarily for use as a control total; secondly the planning total relates to the public sector as a whole whereas general government expenditure relates only to the expenditure of central and local government. There are also a number of smaller definitional differences. The differences are quantified in Table 21.5.1 and discussed in more detail in paragraph 5.5 below.

Table 21.5.1 Planning total and general government expenditure

		£ million								
		1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
		outturn	outturn	outturn	outturn	outturn	estimated outturn	forecast	forecast	forecast
Public expenditure planning total		120,391	129,873	133,798	139,311	145,740	153,600	167,100	179,400	191,600
Adjustments to arrive at general government expenditure:										
<i>Deduct</i>	Some public corporations' capital expenditure ⁽¹⁾	96	105	16	-81	-313	-345	-128	-89	-92
	Market and overseas borrowing by nationalised industries and other public corporations ⁽¹⁾	-289	1,130	-1,340	-1,673	-1,986	-2,030	-1,670	-1,170	-260
<i>Add</i>	General government gross debt interest	14,525	16,054	17,655	17,587	17,526	17,700	17,000	16,000	15,500
	Capital consumption	2,076	2,204	2,404	2,628	2,767				
	Grants and loans to some public corporations ⁽¹⁾ and Passenger Transport Executives	369	376	201	136	-55				
	VAT refunded	977	1,212	1,361	1,583	1,650				
	Pension increase payments	627	693	717	727	764				
	Employers' statutory sick pay scheme	440	523	561	737	772				
	Employers' statutory maternity pay scheme					183	7,000(3)	7,500(3)	8,000(3)	8500(3)
	Local authorities net expenditure on company securities	9	5	14	71	262				
	Other (net) ⁽²⁾	828	888	140	-113	-412				
General government expenditure		140,435	150,593	158,175	164,421	171,496	180,900	193,700	205,000	216,000

⁽¹⁾ The public expenditure treatment of individual public corporations is shown in section 3.

⁽²⁾ Includes, for example, fines and fixed penalties imposed by magistrates' courts, capitalised interest on Housing Association Grant and differences between general government expenditure as measured by the national accounts and as derived from Treasury sources.

⁽³⁾ Figures after the bracket and for debt interest have been rounded to the nearest £100 million for 1988-89 and £500 million for later years.

5.3 The national accounts provide a widely accepted framework for analysing and forecasting the economic activity of the country. It is, therefore, important that public expenditure can be readily related to this framework. Consequently the definitions of public expenditure are closely allied to the national accounting concepts which themselves broadly follow international guidelines.

5.4 However, there are certain aspects of the national accounts which cannot sensibly be read across to a control total for public expenditure purposes and sometimes other factors dictate an alternative approach. Consequently, a number of adjustments are needed to relate the public expenditure planning total to the broader concept of general government expenditure.

5.5 The relationship between the public expenditure planning total and general government expenditure is shown in **Table 21.5.1**. The main stages in moving from the planning total to general government expenditure are as follows:-

(i) Add general government gross debt interest which is excluded from the planning total; although it is affected by government policy on borrowing and interest rates it is not controlled as an expenditure programme.

(ii) Deduct the market and overseas borrowing of nationalised industries (including capital value of certain leasing transactions) and other public corporations which have external finance treatment because general government expenditure only covers central and local government transactions.

(iii) Deduct the capital expenditure of some public corporations (see **Section 3** of this chapter for a description of the treatment of public corporations in public expenditure).

(iv) Add the grants and loans made to those public corporations by central and local government.

(v) Deduct the capital expenditure of the Land Authority for Wales and the Passenger Transport Executives which are classified to the public corporations sector in the national accounts but treated as local authority bodies in the planning total.

(vi) Add the grants and loans to the Land Authority for Wales and to Passenger Transport Executives.

(vii) Add the imputed value of non-trading capital consumption which, as an imputed item, has no logical place in a control total.

(viii) Add refunds of VAT paid by local authorities and by central government departments. In the national accounts such VAT is estimated and attributed to expenditure by local and central government.

(ix) Add the pension increase element of the pensions paid to members of the teachers and National Health Service superannuation schemes.

(x) Add payment by employers (a) under the Statutory Sick Pay Scheme (from April 1983) and (b) under the Statutory Maternity Pay Scheme (from April 1987).

(xi) Add local authorities' net cash expenditure on company

securities.

(xii) Add income from privatisations proceeds where this is treated as revenue in the national accounts.

(xiii) Add rent received from private contractors for HM Dockyards which is treated as negative expenditure in the planning total but as revenue in national accounts.

(xiv) Deduct external finance of the Cable Authority and add its expenditure.

(xv) Add expenditure by the Office of Telecommunications and the Office of Gas Supply.

(xvi) Add expenditure by the Securities and Investments Board.

(xvii) Deduct the capital value of assets and add rents on financial leases taken out by local authorities.

(xviii) Deduct the net increase in local authorities' special funds.

(xix) Add fines and fixed penalties imposed by magistrates' and Scottish courts.

(xx) Allow for the effect of differences in timing of transactions with British Coal, whose accounting year ends on the last Saturday in March and starts the day following, rather than 31 March and 1 April. The size of this adjustment will vary depending on the dates and British Coal activity.

(xxi) Add adjustments to put certain central government expenditure on an accruals basis.

(xxii) Deduct loans to the General Practice Finance Corporation.

(xxiii) Add adjustments related to different timings of expenditures (other than those described in (xix)).

(xxiv) Add capitalised interest payments by housing associations.

(xxv) Add the capital expenditure of the Crown Estate Office.

(xxvi) Add an adjustment to account for the residual resulting from the difference between general government expenditure as measured by national accounts sources and Treasury sources.

5.6 In addition to the above differences, there are a number of ways in which national accounts and the planning total differ which do not affect the aggregate measure of public expenditure. National accounts treat the Housing Corporation in Scotland as a central government body while the planning total treats it as a public corporation. Northern Ireland expenditure on police, fire and education is treated as central government expenditure in the national accounts but as local authority expenditure in the planning total. Additionally, capital transfers from the Scottish and Welsh Development Agencies to local authorities are treated as local authorities capital expenditure in the national accounts but as part of public corporations' external finance in the planning total. Furthermore, the national accounts treat about half the expenditure

on the Community Programme as appropriate to local authorities while it is all treated as central government expenditure in the planning total. Local authority expenditure is discussed in more detail in **Section 2**; **Table 21.2.7** shows how local authority expenditure in the United Kingdom is financed.

5.7 The national accounts and the public expenditure planning total are generally consistent in their treatment of changes. Changes which stem from amending past practice or movements in the way expenditure is measured are termed classification changes and are applied to all years. Substantive changes in activity are termed policy changes and are not applied to figures before the date when they occurred. The only difference in this area between the national accounts and the planning total is that the national accounts regard switches of function between government departments as policy changes whereas, to preserve continuity, they are treated as classification changes in the public expenditure planning total.

5.8 Table 2.4 of Financial Statistics provides quarterly outturn data of the planning total about three months in arrears. These data on the planning total are derived from national accounts sources. In the Autumn following the year in question a Treasury analysis of public expenditure is published in Financial Statistics Table S12 alongside the national accounts measure of the planning total.

Glossary of terms

Aggregate Exchequer Grant (AEG) is the aggregate of grants from central government to local authorities to supplement income from the rates. It includes RSG (qv) and grants hypothecated to specific services.

Appropriation accounts are prepared for each Vote (qv), covering Supply expenditure (qv) which has arisen in the previous financial year.

Billion is used to denote a thousand million.

Block grant is the sum available for distribution to local authorities in England and Wales after deducting from Rate Support Grant (RSG) (qv) money paid as domestic rate relief grant

Borrowing requirement: The public sector borrowing requirement (PSBR) measures the public sector's borrowing from other sectors of the economy and overseas, net of changes in the public sector's holdings of short-term financial assets. A negative PSBR is a public sector debt repayment (PSDR). The general government borrowing requirement (GGBR) is similarly defined, measuring general government, (central government and local authorities) borrowing net of changes in general government short-term assets. (For further details see section 2 of the 1988 Financial Statistics Explanatory Handbook.)

Cash limits set a limit on the amount of cash the Government proposes to spend or authorise on certain services or blocks of services during one financial year. Cash limits as a means of control over cash spending in the year ahead were introduced generally in 1976. About 40 per cent of public expenditure is directly covered by cash limits. (**Table 21.1.19** shows details of central government cash limited expenditure in 1989-90). Another 20 per cent is local authority current expenditure and here the bulk of Aggregate Exchequer Grant (qv) paid to help finance it is subject to cash limits. About 60 per cent of Supply expenditure (qv) is cash limited, covering both direct public expenditure by central government and its voted grants and lending to other public sector bodies. Some expenditure outside the scope of the Supply Estimates is also subject to cash limit control, principally certain expenditure by

Northern Ireland departments and capital expenditure by local authorities. Cash limits are published on Budget Day with the Supply Estimates. The nationalised industries' contribution to public expenditure is controlled by means of external financing limits (qv), which are a form of cash limit for individual industries.

Capital consumption is a measure of the amount of fixed capital resources used up each year. It is allowed for (as depreciation) in the prices charged by trading bodies (qv). An imputed charge for the consumption of non-trading capital assets is included in general government expenditure and income in the national accounts but not in the public expenditure planning total.

Capital spending: The broad definition of public sector capital spending used in **Tables 21.1.11 to 21.1.13** measures the extent to which the public sector is either helping to renew or increase the nation's stock of physical assets. It includes the NATO definition of defence capital expenditure (see paragraph 1.43), the capital expenditure of public corporations and excludes purchases and sales of existing assets. The capital expenditure component of the planning total, however, covers expenditure on fixed assets (net of certain asset sales - privatisation proceeds (qv) are shown separately), stockbuilding, capital grants and net lending. The wages and salaries of certain people engaged in planning and supervising capital projects are included in capital expenditure. For local authorities it also includes the capital value of assets acquired under financial leases, property leased for more than 20 years, and all vehicles leased for more than one year.

Central government: Comprises Parliament, government departments and the Northern Ireland departments, extra-departmental government funds (the largest of which is the National Insurance Fund) and a substantial number of other bodies which are controlled by departments and are often wholly or partly financed from government funds and which do not undertake commercial type activities as a major part of their work. The National Health Service is by far the largest. In addition there are a small number of central government trading bodies (qv), whose current expenditure is excluded from public expenditure but subsidies to them are included. Trading funds (qv), although formally part of central government, are treated as public corporations for public expenditure planning, control and statistical purposes.

Classification changes: see paragraphs 86 and 87 of **Section 1**.

Consolidated Fund is the Government's main account with the Bank of England. The largest part of central government expenditure is financed from this Fund and the Government's tax revenues and other current receipts are paid into it.

Current expenditure on goods and services covers the economic categories (qv) of public service pay and other current expenditure on goods and services. It includes direct expenditure by central and local government on providing services eg health or education, but the operating costs of general government trading bodies (qv), eg local authority ports, are not included. Current expenditure on goods and services is measured net of charges made for certain goods and services. Notional allowances for non-trading capital consumption (qv) (the 'using-up' of schools, hospitals, roads etc) are omitted. Local authority spending is measured net of VAT which is refunded to them since this is how they present their own accounts. Similarly, for control reasons, central government expenditure is measured net of VAT, which is refunded to departments. Virtually all defence spending, on buildings as well as on equipment, is treated as current expenditure on goods and services to conform with international national accounting conventions (see also capital spending).

Departmental running costs: Departmental running costs include the gross costs of the administration of central government including the pay of civil servants, plus those members of the Armed Forces engaged in headquarters and support activities and all costs of accommodation, travel, training, etc. Pensions in payment are excluded as are the administrative costs of trading funds (qv) and certain other areas which are subject to separate control arrangements.

Economic categories: The following broad economic categories have been used in this White Paper:-

- (a) Public service pay
- (b) Other current expenditure on goods and services
- (c) Subsidies
- (d) Current grants to persons
- (e) Net capital expenditure on assets
- (f) Capital grants
- (g) Lending and other financial transactions

These categories are briefly described in paragraph 43 of **Section 1**.

Estimates: see **Supply expenditure**.

External financing limits (EFLs) are cash limits imposed by the Government on the external finance of nationalised industries. External finance consists of finance supplied by Government (lending, subsidies, grants) and borrowing from commercial sources, both in the UK and abroad (including the capital value of certain leases).

General government is the central government and local authorities sectors consolidated. See also public sector.

General government expenditure: see paragraph 10 of **Section 1**.

Grants are unrequited payments to individuals or bodies, ie payments for which no goods or services are received in return. Grants made to assist in financing capital expenditure are classified as capital grants. Unrequited payments to trading concerns which are designed to allow the concern to sell goods and services at below the economic price, whether in the public or private sector, are classified as subsidies (qv).

Gross administrative costs of government departments comprise departmental running costs (qv) and the gross cost of administrative activities exempted from running costs control. See paragraph 62 of **Section 1**.

Gross domestic fixed capital formation (GDFCF) is purchases less sales of fixed assets (land, buildings, vehicles, plant and machinery) for use in the United Kingdom, either for renewing or for adding to the stock of fixed assets. Expenditure on routine maintenance and repair work is excluded, but major replacements and renovations are included (see also capital spending).

Gross domestic product (GDP) (at market prices) is the value of the goods and services produced by United Kingdom residents. Taxes on the expenditure on both home produced and imported goods and services and the effect of subsidies are included. No deduction is made for depreciation of existing assets. (Gross national product (GNP) includes, in addition, the income of United Kingdom residents from economic activity abroad and property held abroad, less the corresponding income in the United Kingdom of non-residents.)

Local authorities: This sector comprises elected local councils, police authorities, residuary bodies, Passenger Transport Executives, the Land Authority for Wales and some other bodies controlled by

councils jointly.

Nationalised industries are discussed in **Section 3**. They consist of those public corporations (qv) listed in **Table 21.3.2**.

National Insurance Fund is the statutory fund into which all national insurance contributions payable by employers, employees and the self employed are paid, and from which expenditure on contributory social security benefits is met.

National Loans Fund is the Government's account with the Bank of England set up under the National Loans Fund 1968. All government borrowing transactions (including the payment of debt interest) and most lending transactions are handled through this Fund.

Net lending comprises loans to the private sector (individuals, unincorporated bodies and companies), to overseas governments, to nationalised industries and other public corporations (including issues of public dividend capital and issues under section 18 of the Iron and Steel Act 1975) and drawings on UK subscriptions to international lending bodies; all are measured net of repayments of principal.

Outturn and **estimated outturn** describe expenditure actually incurred or estimates made on the basis of partial information.

Planning total: see paragraph 11 of **Section 1**.

Privatisation proceeds: see paragraphs 73-78 of **Section 1**.

Public corporations are publicly owned trading bodies, usually statutory corporations with a substantial degree of financial independence from central government and local authorities including the powers to borrow and to maintain reserves. They include nationalised industries, trading funds and other public corporations (see **Section 3**).

Public dividend capital (PDC) is a form of long-term government finance for certain public corporations, on which the government is paid dividends rather than interest. In the nationalised industries, it is the Government's policy to make PDC available only to those industries which are expected to be both fully viable and subject to cyclical fluctuations in their returns as a result of their trading conditions and the nature of their assets. PDC is not normally repayable.

Public expenditure: see paragraphs 8-12 of **Section 1**.

Public Expenditure Survey (PES) is the annual review of public expenditure plans undertaken by the Government.

Public sector comprises central government, local authorities and public corporations (qv) (see also general government).

Public sector borrowing requirement (PSBR): see **borrowing requirement**.

Public sector debt repayment (PSDR): see **borrowing requirement**

Public service pay includes the pay and pension costs of directly employed staff in the non-trading public sector (eg government departments, armed forces, National Health Service, fringe bodies and local authorities). Figures include remuneration, employers' contributions to national insurance and to occupational pension schemes or in the case of pension arrangements such as those for the Armed Forces and civil servants, actual pensions paid as a proxy for contributions.

Rate Support Grant (RSG) is the unencumbered grant from central government to supplement local authorities' own finances in England and Wales. It is distributed so that each can provide, to similar standards, the services for which it is responsible, with similar efficiency, while charging a similar rate in the pound to its rate payers. In addition, specific grants are made for certain services.

Revenue Support Grant (RSG) will supersede Rate Support Grant in Scotland in 1989-90 and England and Wales in 1990-91, alongside the introduction of the community charge.

Real terms figures are the cash outturn or plans adjusted for the effect of general inflation, as measured by the GDP market price deflator. (see paragraphs 17 and 18 of **Section 1**).

Receipts from fees and charges: Public spending is measured net of receipts from certain fees and charges, such as those for school meals, further education courses, prescriptions and dental treatment etc. Essentially, current expenditure on goods and services is shown net of receipts when:-

- (i) there is a clear and direct link between the payment of the fee or charge and the acquisition of specific goods and services (including the testing of an ability of level of performance or the establishment of standards); and
- (ii) the size of payment is related to the cost of providing the goods and services, and the Government is not using its power to make the charge an instrument for raising revenue.

Relevant expenditure is the aggregate of local authority spending taken into account before fixing Aggregate Exchequer Grant (qv). It differs in certain respects from local authority current expenditure in this White Paper (see **Section 2**).

The **Reserve** provides a margin for uncertainties and is intended to cover any future additions to spending, whether these result from policy changes, new initiatives, contingencies or revised estimates of the cost of a demand-led programme such as social security.

Running costs: see **Departmental running costs**.

Running cost receipts are departmental receipts arising from charging other departments or outside bodies for activities whose costs fall within the ambit of departmental running costs (qv) and also receipts from servicemen for food and accommodation.

Spending authorities: see paragraphs 19-31 of **Section 1**.

Stock building: The value of the physical increase in stocks, eg the agricultural produce stocks held by the Intervention Board for Agricultural Produce.

Subsidies are payments to trading concerns which reduce the selling prices below the factor cost of production. Examples include payments to local authority housing revenue accounts and payments by the Export Credits Guarantee Department to commercial banks to meet the differences between the interest charged by the banks on fixed rate loans at international consensus rates and the interest payments they make on their own borrowing (see also grants.)

Supply Estimates: see **Supply expenditure**.

Supply expenditure is expenditure by central government which is financed by monies voted by Parliament in the annual Supply Estimates, also termed **Voted in Estimates**.

Survey: see **Public Expenditure Survey**.

Trading bodies are publicly owned trading concerns which are closely integrated with general government (qv). In particular they are not able to hold reserves, as distinct from working balances and so they are required to account for capital expenditure on a strictly annual basis. Their capital expenditure is included in public expenditure but their current expenditure (and current receipts) are excluded, in line with the general treatment of trading activities. There are few central government trading bodies (eg ECGD and Remploy) but a large number of local authority trading bodies, eg local authority theatres and recreational facilities.

Trading Funds: The Crown Suppliers, HMSO and the Royal Mint are government departments constituted as Trading Funds under the Government Trading Funds Act 1973. They are trading concerns with a number of special features; in particular they are staffed by civil servants and cannot receive subsidies. Trading Funds are treated as public corporations (qv) for public expenditure planning, control and statistical papers.

Note: An individual Supply Estimate (qv).

Voted in Estimates: see **Supply expenditure**.

MP

FROM: M G RICHARDSON
DATE: 16 December 1988

(1) MR ANSON

List A

List B*

Copies attached for:

Chancellor of the Exchequer
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton*cc Sir T Burns
Sir A Wilson
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Robson
Mr Culpin
Mr Pickford
Mr Gieve
Mr MacAuslanMr Phillips
Mr Monck
Mr Spackman
Mr Burgner
Mr A Edwards
Mrs Case
Mr R I G Allen
Mr Mountfield
Mr Moore
Mrs Lomax
Miss Peirson
Mr L Watts
Mr Mowl
Mrs R J Butler
Mr Pegler
Mr I Taylor
Mr Deaton
Mr C Woolf
Miss Adamson
Miss Hawkins

(2) CHIEF SECRETARY

Mr Kidgell - CSO

*Supplementary
analysis attached

PLANNING TOTAL AND STATE OF THE RESERVE 1988-89

This submission provides details of GEP's December assessment of the Reserve and planning total for 1988-89. We shall be putting forward a separate submission on the presentation of the outturn in next month's Public Expenditure White Paper (PEWP).

2. This month's assessment indicates total claims on the 1988-89 Reserve of less than £0.1 billion and hence a planning total outturn of £153.4 billion. The estimated outturn is £0.2 billion lower than in the Autumn Statement: £3.4 billion below 1988 PEWP and FSBR plans.

3. The main decreases since last month are:

- (i) A £130 million reduction in forecast MOD expenditure. The estimated MOD outturn is now just below 1988 PEWP provision;

and
see
5(i)
below

- (ii) A net £180 million reduction in social security (mainly on Income Support) to reflect the department's latest forecast outturn in the light of four month's actual expenditure since the April reforms.
- (iii) £200 million higher receipts from the privatisation of British Steel.

4. The main increases since last month are:

- (i) £55 million on Energy to reflect payments to AEA for liabilities to BNFL;
- (ii) £150 million extra for the financial reconstruction of Short Brothers.

5. This month's forecast is subject to the customary proviso that it is still uncertain. In particular the usual general uncertainty is aggravated by a number of specific, known uncertainties about the timing of various payments and receipts:

- (i) Short Brothers We have assumed that the payment of £500 million for the financial reconstruction of Short Brothers will occur in 1988-89; it may not.
- (ii) British Coal We have included £100 million for the further restructuring of British Coal in 1988-89. There is a risk that some of this expenditure may not be incurred until 1989-90.
- (iii) Girobank We have assumed that Girobank will not be privatised until 1989-90; but it might be brought forward into 1988-89, with receipts of say £100m.
- (iv) GPFC We have assumed receipt of the proceeds from the GPFC sale (£150m) in 1988-89; it may slip.

If they all went the same way, (i) to (iii) above could reduce the estimated outturn by up to £700m; (iv) could increase it by £150m.

6. Table 1 shows the main claims on the Reserve and changes since last month:

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Table 1

	Total	£million	Change since last month
Central govt cash limited	1,160		-70
of which: EYF carryforward	570		0
NHS pay review body	790		0
Cash limit shortfall	-980		-130
Central govt. non cash limited (incl NIF)	-720		-140
of which: Soc Sec (excl HB)	-990		-180
Rover	560		0
NHS pay review body	60		0
IBAP gross	-390		0
Central govt. Other	510		170
of which: CFERs	-230		0
Net EC contributions	150		0
NI (Shorts Brothers)	600		170
Local authorities	550		-30
of which:			
Relevant current	1,230		0
Other current	-90		0
Capital	-590		-30
Public corporations	-230		90
of which: Nat Ind EFLs	-130		80
List III PCs	-100		0
Privatisation proceeds	-1,200		-200
TOTAL (rounded)	60		-180

7. The attached annex shows the latest estimate of outturn analysed by department, compared with 1988 PEWP plans and the Autumn Statement; the attached chart shows how our assessment of the planning total outturn has changed each month.

8. Claims on the Reserve totalling £2.6 billion have been formally agreed. They are expected to be largely offset by increased privatisation proceeds (£1.2 billion), lower social security expenditure (£1 billion) and the shortfall in cash limited spending (£1 billion). Table 2 shows total claims charged and expected, discretionary and non-discretionary.

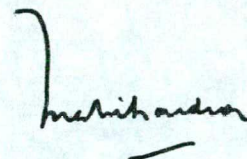
Table 2

	£ billion		
	Formally agreed	Expected	Total
Discretionary	2.5	0.3	2.8
Non-discretionary	0.1	-2.8	-2.7
TOTAL	2.6	-2.5	0.1

9. The latest estimated outturn for running costs is £13,813 million, £80 million above initial running costs limits. This is unchanged from last month. On this month's estimates, running costs would account for just 9 per cent of the planning total.

Conclusion

10. This month's assessment suggests that the 1988-89 Reserve will be underspent by £3.4 billion. Although the aggregate change since last month's assessment and the Autumn Statement is relatively small (£0.2 million), it is dwarfed by the known uncertainties underlying the forecast. GEP will be submitting separately on presentation in the PEWP.



M G RICHARDSON

1988-89 TOTAL PUBLIC EXPENDITURE BY DEPARTMENT

£billion

1988-89	1988 PEWP Plans (1)	1988 Autumn Statement (2)	Nov est. (3)	Dec est. (4)	Change on Aut St (5)	Change on Nov (6)	Change on Plans (7)
Ministry of Defence	19.22	19.30	19.31	19.18	-.12	-.13	-.04
Foreign & Commonwealth Office - ODA	1.43	1.48	1.46	1.47	-.02	.01	.04
Foreign & Commonwealth Office - other	.73	.75	.73	.73	-.03	-.01	-
European Community	.80	.85	.85	.85	-	-	.15
Intervention Board for Agricultural Produce	1.35	.86	.86	.86	-.01	*	-.39
Agriculture	.80	.84	.83	.83	-.01	-.01	.02
Forestry Commission	.06	.06	.06	.06	*	*	*
Department of Trade & Industry	1.25	1.71	1.65	1.65	-.06	-.01	.40
Department of Energy	.12	.22	.30	.38	.16	.08	.26
Export Credits Guarantee Department	.13	.11	.10	.10	-.01	*	-.03
Department of Employment	4.24	4.13	4.13	4.13	*	*	-.11
Department of Transport	5.15	4.81	4.81	4.83	.02	.02	-.32
DOE - Housing	3.02	2.05	2.05	2.05	*	*	-.97
DOE - Property Services Agency	-.13	-.01	.02	.02	.03	*	.15
DOE - Other Environmental Services	3.86	4.39	4.37	4.38	-.01	*	.51
Home Office	6.05	6.28	6.29	6.31	.03	.02	.26
Legal Departments	.97	.96	.93	.93	-.03	*	-.05
Department of Education and Science	17.97	18.44	18.45	18.44	*	*	.47
Office of Arts and Libraries	.91	.98	.98	.98	*	*	.07
Department of Health	20.68	21.74	21.73	21.73	-.01	-	1.04
Department of Social Security	48.46	47.60	47.63	47.45	-.15	-.18	-1.01
Civil Superannuation	1.34	1.24	1.24	1.24	-	-	-.10
Scotland	8.51	8.72	8.67	8.72	*	.06	.22
Wales	3.45	3.60	3.62	3.59	*	-.02	.14
Northern Ireland	5.14	5.17	5.53	5.70	.54	.17	.56
Chancellors Departments	2.46	2.43	2.47	2.49	.06	.02	.03
Minor Departments	.38	.38	.36	.36	-.01	-	-.02
Total expenditure on programmes	158.37	159.26	159.61	159.63	.37	.02	1.26
Privatisation proceeds	-5.00	-6.00	-6.00	-6.20	-.20	-.20	-1.20
Plans/Estimated outturn	153.37	153.59	153.61	153.43	-.16	-.18	.06
Reserve not allocated above	3.50	-	-	-	-	-	-
Planning Total	156.87	153.59	153.61	153.43	-.16	-.18	
Implied overspend on plans	-	.22	.24	.06	-.16	-.18	
Reserve available	-	3.50	3.50	3.50	-	-	
Implied overspend on planning total	-	-3.28	-3.26	-3.44	-.16	-.18	

(1) On 288 adjusted for the effects of classification changes.

(2) Includes adjustment of £0.33 billion shown in Autumn Statement Planning Total.

(3) Consistent with PEPR(88) 9.

(4) Consistent with PEPR(88) 10.

(5) Column 5 = Column 4 - Column 2, calculated on unrounded figures and independently rounded.

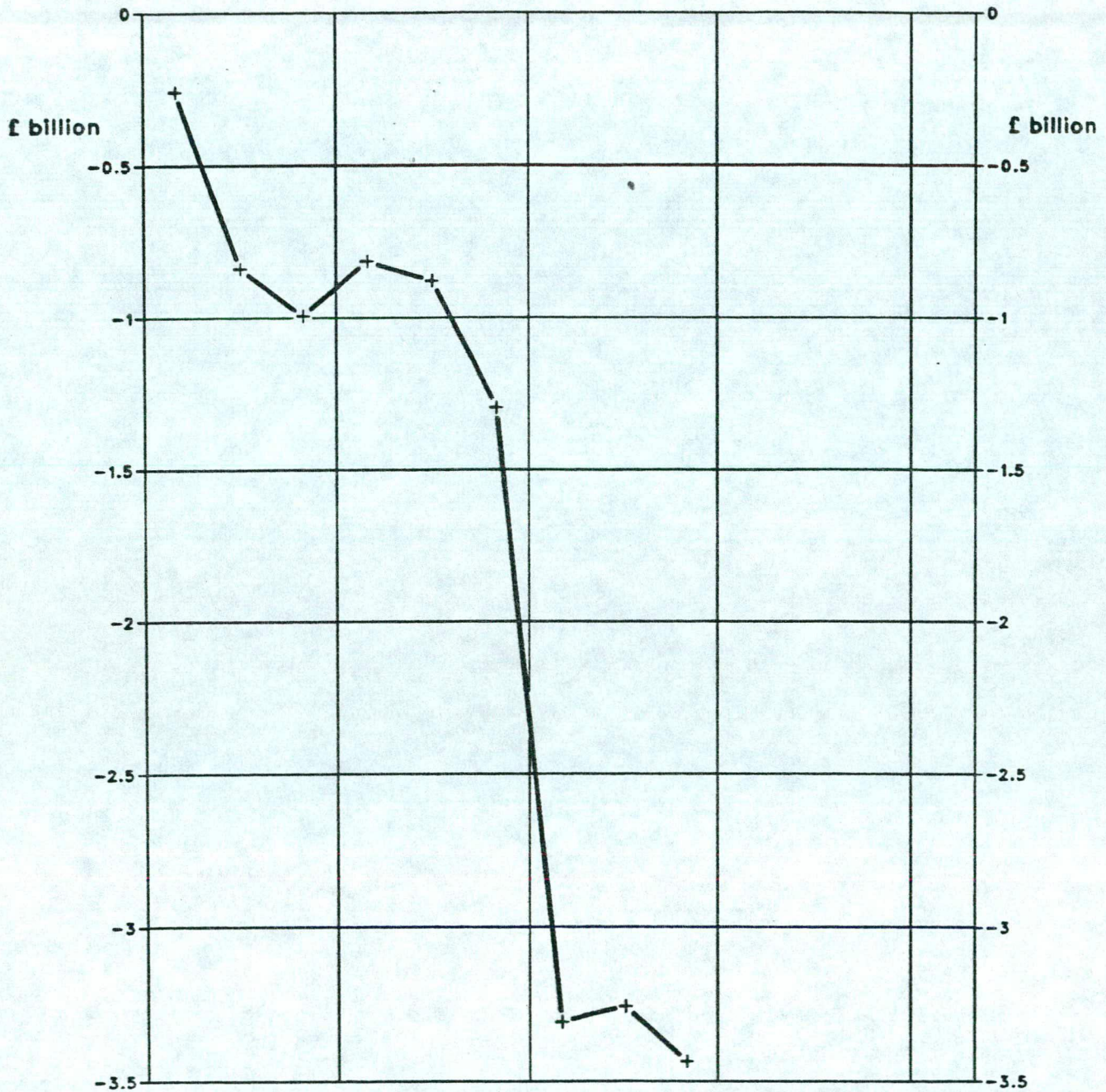
(6) Column 6 = Column 4 - Column 3, calculated on unrounded figures and independently rounded.

(7) Column 7 = Column 4 - Column 1, calculated on unrounded figures and independently rounded.

* Indicates less than +/- £5 million.

PUBLIC EXPENDITURE PLANNING TOTAL: CHANGE FROM PLANS 1988-89

+—+ PUBLIC EXPENDITURE PLANNING TOTAL



Forecast made in:

APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR

1988-89

FROM: MRS R J BUTLER
DATE: 19 December 1988

1. MRS LOMAX
2. CHIEF SECRETARY

RL 19/12

cc Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Moore
Mr Sedgwick
Mrs Brown
Mr Mowl
Mr A M White
Mr MacAuslan
Mr Richardson
Mr Bent
Mr Pegler
Mr I Taylor
Mr Woolf
Miss Adamson

1989 PEWP: PRESENTATION OF 1988-89 ESTIMATED OUTTURN

X / Mr Richardson's minute of 16 December sets out our latest estimate of the outturn for the planning total for 1988-89 and explains the uncertainties surrounding that figure. This note deals with the presentational issues of using that figure in the PEWP and seeks your agreement to the figures to be published.

Overall estimate of outturn

2. Our latest estimate of outturn is £153.4 billion, £0.2 billion lower than the figure shown in the Autumn Statement. We recommend that this figure is published.

Privatisation Proceeds

3. Taking account of the gross proceeds from the privatisation of British Steel, and making some allowance for expenses, the Autumn Statement estimate of £6 billion privatisation proceeds in 1988-89 is likely to be exceeded by about £0.2 billion. Since the gross proceeds from Steel will be included in the figure for privatisation proceeds published in the press notice on the December PSBR in mid-January, it is appropriate to reconsider what estimate of privatisation proceeds should be shown in the PEWP.

4. If the Autumn Statement figure of £6 billion were shown in the PEWP this would suggest a high level of expenses on the Steel sale. Our current best estimate for 1988-89 for privatisation

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proceeds is £6.2 billion, a figure which takes into account three small elements which are not already in the public domain: the GPFC receipts (£50 million), BT pensions (£85 million), British Steel costs (£60 million). However, PE advise that it would be reasonable to aim off somewhat for proceeds arriving in the final quarter of 1988-89, and we therefore recommend that a figure of £6.1 billion be published in the PEWP.

Longfall/shortfall adjustment

5. The figures which Departments have provided for publication are at present £500 million lower than the Treasury's assessment of outturn though they are subject to further adjustment as the figures are finalised in the next few days. The major factors in the difference are:

	£ million*	
Northern Ireland	+500	Shorts, which for confidentiality reasons NI do not wish to show against their programme
Department of Energy	+360	Mainly £100m for coal not yet in a published EFL and £200m in pensions payment by Electricity not yet in the industry's forecast
Social Security	-140	With only one month's additional outturn information since the Autumn Statement DSS do not wish to change their published forecast
Legal departments	-50	
Scotland	-50	
Wales	-50	
Department of Trade and Industry	-40	
Department of Education and Science	+40	
Other	-70	
Total	500	

Note: Negative figures arise when the departmental figures are higher than the Treasury view

This difference in programme expenditure is offset by the £100 million difference for privatisation proceeds mentioned above, and

leads to an overall adjustment of +£400 million. This is higher than we should normally be comfortable with, especially since it is higher than the £300 million adjustment in the Autumn Statement, but not unprecedented; the figure was +£600 million in last year's PEWP. With only two months of the year left, it might have been awkward to explain why the Treasury's estimate was so much more than the departmental contributions. But by the time the PEWP is published, the possibility of a Short's payment will have become public, and it will be possible to explain that the adjustment takes account of a number of differences including an allowance for Shorts. We therefore recommend publishing an adjustment figure, probably of the order of +£400 million, but subject to change in the light of final figures submitted by Departments. Such late changes will not affect the three major contributions mentioned above. We will, of course, let you know what the final figure will be once the database has settled down.

GGE and ratios

6. The change in the estimated level of the planning total reads directly across to GGE. However, there are several small changes to national accounts adjustments which on balance leave us with the same estimate of GGE as was used in the Autumn Statement. Consequently there are no changes to the GGE ratios or growth rates. Nor has the decrease in the planning total changed the real terms growth in spending on programmes over the next three years which remains at 3¼ per cent a year in rounded terms.

7. I would be grateful for your agreement to the following for publication in the PEWP:

- i. an estimated outturn figure of £153.4 billion for the planning total for 1988-89 which should include;
- ii. an estimated outturn figure of £6.1 billion for privatisation proceeds;
- iii. an adjustment for longfall/shortfall, probably of the order of +£400, but subject to change in the light of the final figures submitted by Departments.

R J Butler
MRS R J BUTLER

X back 101
 (I have asked
 for pps)



FROM: PETER WANLESS
 DATE: 21 December 1988

MP

MRS BUTLER

Ch/ Sorry - CST reached before
 you had seen pps.
 Are you also content?

mpw.
 21/12.

OK

cc:
 Chancellor
 Sir Peter Middleton
 Sir T Burns
 Mr Anson
 Mr H Phillips
 Mr Monck
 Mr Sedgwick
 Mrs Lomax
 Mrs Brown
 Mr Mowl
 Mr A M White
 Mr MacAuslan
 Mr Richardson
 Mr Bent
 Mr Pegler
 Mr I Taylor
 Mr Woolf
 Miss Adamson

1989 PEWP: PRESENTATION OF 1988-89 ESTIMATED OUTTURN

The Chief Secretary was grateful for your submission of 19 December, and agrees with its conclusions, namely:

- (i) an estimated outturn figure of £153.4 billion for the planning total for 1988-89 which should include;
- ii. an estimated outturn figure of £6.1 billion for privatisation proceeds;
- iii an adjustment for longfall/shortfall, probably of the order of +£400, but subject to change in the light of the final figures submitted by Departments.

P. Wanless

PETER WANLESS
 Assistant Private Secretary

UNCLASSIFIED
Covering CONFIDENTIALFROM: MRS R J BUTLER
DATE: 5 January 1989*pps of (my
to PS/OST
minute earlier**this
week*

PS/CHIEF SECRETARY

*RF*cc PS/Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mrs Lomax
Mrs Brown
Mr MacAuslan
Mr Woolf
Miss Walker
Mr Call

*Ch/ You also suggested a vertical line
between outturn and plan years. I
passed this on to Rosemary Butler
who reminded me that outturn yrs
are printed against a markedly paler blue background. OK*

1989 PUBLIC EXPENDITURE WHITE PAPER: CHAPTER 21 *hpn*

The Chancellor has suggested that the public sector capital spending table (21.1.11) in Chapter 21 of the 1989 PEWP might include a line for general government.

2. Mr Woolf has compiled a revised version of the table incorporating this line which shows a rising profile for general government capital spending in cash terms. **The figures in real terms, which could be calculated using information available elsewhere in the PEWP, are shown in manuscript at the foot of the table.**

3. If the Chief Secretary is content we will add this line to the proofs which are to be returned to the printer on 12 January.

RJ Butler

MRS R J BUTLER

Table 21.1.11 Public sector capital spending⁽¹⁾ by spending authority and department

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	plans
£ million									
Central government									
Defence	4,715	5,360	5,642	5,434	5,914	5,898	6,000	6,300	6,600
Foreign and Commonwealth Office ⁽²⁾	12	13	13	18	28	35	35	31	50
Ministry of Agriculture Fisheries and Food ⁽²⁾	149	136	108	78	84	93	91	115	118
Trade and Industry ⁽²⁾	418	450	367	431	332	983	423	389	333
Energy	41	45	29	12	6	14	8	2	1
Employment	48	57	58	58	68	97	134	133	109
Transport	638	711	738	775	889	947	1,201	1,303	1,344
DOE - Housing	884	825	794	727	771	751	964	1,407	1,720
DOE - Other environmental services ⁽²⁾	44	51	62	65	81	90	144	159	173
Home Office and legal departments ⁽²⁾	126	146	177	197	220	324	542	607	526
Education and Science	237	249	286	298	311	378	476	458	464
Arts and Libraries	15	17	25	27	44	59	70	72	80
Department of Health	731	830	912	992	1,012	1,049	1,234	1,271	1,291
Department of Social Security	23	21	48	77	98	150	268	289	219
Scotland	573	595	585	624	554	596	533	561	568
Wales	331	305	298	349	339	375	411	423	422
Northern Ireland	297	322	360	382	371	384	423	410	393
Chancellor's departments ⁽²⁾	19	37	78	117	139	144	155	173	161
Other departments ⁽²⁾	168	212	194	195	175	114	124	131	122
Total central government	9,467	10,383	10,772	10,856	11,434	12,480	13,237	14,235	14,694
Local authorities									
Transport	764	814	669	606	590	624	733	691	710
DOE - Housing	2,877	2,890	2,492	2,506	2,645	3,015	2,946	2,602	2,473
DOE - Other environmental services	801	993	933	1,043	1,081	1,289	964	780	777
Home Office and legal departments ⁽²⁾	157	163	181	199	225	235	237	236	241
Education and Science	457	481	518	552	546	600	520	530	538
Department of Health	86	95	102	108	116	131	119	120	122
Territories	1,331	1,218	1,226	1,354	1,603	1,623	1,595	1,611	1,638
Other	120	111	105	94	85	88	66	68	72
Total local authorities	6,592	6,765	6,226	6,462	6,890	7,606	7,181	6,635	6,572
Total general government	16,060	17,148	16,998	17,319	18,325	20,085	20,418	20,871	21,266
Public corporations⁽³⁾									
Water	804	764	847	1,014	1,131	1,218	1,437		
Electricity	1,847	1,737	1,648	1,597	1,516	1,794	1,777	2,028	
British Rail	224	341	400	427	542	461	634	681	861
Other nationalised industries	863	568	1,029	970	999	1,115	1,298	1,350	1,238
Other public corporations	977	1,017	998	1,013	1,034	1,238	1,303	1,297	1,288
Total public corporations	4,715	4,427	4,921	5,021	5,221	5,825	6,449	(5)	(5)
Total public sector capital spending	20,774	21,575	21,919	22,340	23,545	25,910	26,867	(5)	(5)
Real terms ⁽⁴⁾ (base year 1987-88)	25,025	24,739	23,845	23,519	23,543	24,386	24,083	(5)	(5)

The figures for 1989-90, 1990-91, and 1991-92 make no allowance for allocations to capital spending from the Reserve.

(1) See Table 21.1.12 and paragraph 1.37 for the definition of public sector capital spending.

(2) See footnotes to Table 21.1.1

(3) Excluding those industries that have been privatised.

(4) Real terms figures are the cash outturns or plans adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator.

(5) No totals have been given because the privatisation of the water and electricity industries in 1990-91

and 1991-92 respectively means that the figures for those years and earlier years would not be on a consistent basis. If the figures for water and electricity are

excluded throughout the profile total public sector for capital spending is as follows: 18,118 19,070 19,420 19,723 20,700 22,672 22,838 22,904 23,701 The nationalised industries figures included in these totals are given in footnote 4 in Table 21.3.4.

↳ layout to be corrected

Total general government
in real terms (base year 1987-88) 19,346 19,662 18,492 18,233 18,325 18,904 18,302 18,075 17,881



FROM: MISS M P WALLACE

DATE: 3 January 1989

MP

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Dame A Mueller
Mr Phillips
Mr Monck
Mrs Lomax
Mr Luce
Mrs Butler
Mr Turnbull
Mrs Brown
Mr Hansford
Mr MacAuslan
Mr Woolf
Mr Potter
Miss Walker
Mr Call

1989 PUBLIC EXPENDITURE WHITE PAPER: CHAPTER 21

The Chancellor has seen the draft of PEWP chapter 21 circulated with Mr Woolf's minute of 7 December. He has commented that in the public sector capital spending table (21.1.11) he would be inclined to include a general Government capital expenditure line.

Mpw.

MOIRA WALLACE

MP

FROM: MRS R J BUTLER
DATE: 6 January 1989

CHIEF SECRETARY

cc **Chancellor**
Sir Peter Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mrs Lomax
Mr Moore
Mr Sedgwick
Mrs Brown
Mr Mowl
Mr A M White
Mr MacAuslan
Mr Richardson
Mr Bent
Mr Pegler
Mr Kalen
Mr I Taylor
Mr Woolf
Miss Adamson

Handwritten notes in red ink:
A large diagonal line with 'John' written above it.
A smaller diagonal line with 'John' written above it.
A checkmark below the lines.

1989 PEWP: PRESENTATION OF 1988-89 ESTIMATED OUTTURN

I promised to let you know the final position on the adjustment for longfall/shortfall to be shown for 1988-89 in the PEWP.

2. There have been several changes to departmental figures since my minute of 19 December. Unfortunately the gap between our view and the sum of the components has widened and we will need to show a rounded adjustment of +£450 million rather than +£400 million.

3. Neither the estimated outturn for the planning total nor the adjustment line takes any account of the possibility of £830 million extra proceeds resulting from the BP buyback of KIO shares. This will be covered in briefing. Annex A shows the major contributions to the adjustment.

Handwritten signature: R J Butler

MRS R J BUTLER

MAIN COMPONENTS OF LONGFALL/SHORTFALL ADJUSTMENT OF £450 MILLION

	£ million*	
Northern Ireland	+500	Shorts, which for confidentiality reasons NI do not wish to show against their programme
Department of Energy	+360	Mainly £100m for coal not yet in a published EFL and £200m on pensions payment by Electricity not yet in the industry's forecast
Social Security	-140	With only one month's additional outturn information since the Autumn Statement DSS did not wish to change their published forecast
Privatisation proceeds	-100	As agreed following my minute of 19 December
Department of Employment	+80	Department provided late information for PEWP showing higher underspending
Legal departments	-50	
Scotland	-50	
Wales	-50	
Department of Trade and Industry	-40	
Department of Health	+40	

Note: Negative figures arise when the departmental figures are higher than the Treasury view

~~Mr Spoker~~ 12/2 *John*

JMac

CONFIDENTIAL

FROM: J MACAUSLAN
DATE: 6 January 1989

PS/CHIEF SECRETARY

cc Mr Anson
Mrs Lomax
Mrs Butler
Mr Richardson
Mr A M White
Miss Walker

Ch/ to be aware.

Wagon

prep.

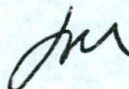
PEWP 1989: PROVISION FOR NORTHERN IRELAND

We spoke about this issue. This note is to record that, as discussed with the Chief Secretary yesterday, the PEWP will show provision for Northern Ireland £53 million higher than in the Autumn Statement. The reason is as follows.

2. We decided in the Survey that the excess assets of the Northern Ireland Consolidated Fund could be used to pay off Northern Ireland Housing Executive debt, saving some £50 million a year in interest charges. These interest charges score as public expenditure within the Northern Ireland block (not as debt interest outside the planning total), and as revenue as they are paid to the Exchequer. The saving on interest from extinguishing the debt could be used to finance expenditure which we anyway agreed to be essential for Northern Ireland.

3. It was always uncertain whether the necessary enabling and commencement Orders could be got through the House in time to extinguish the debt by 1 April 1989. It now appears most unlikely that it can be done. Significant slippage is expected. But we could not cut provision for essential expenditure in Northern Ireland simply because of this. We therefore decided yesterday that the prudent course would be to give Northern Ireland extra provision to cover the whole of 1989-90. This involves adding £53 million to the Northern Ireland block. Alun White has discussed and agreed this with DFP.

4. This addition is PSBR neutral, since the interest payments will continue to benefit revenue in 1989-90. And it can be contained within the announced planning total for 1989-90 of £167.1 billion.



J MACAUSLAN

MPS *MP*



FROM: MISS C EVANS
DATE: 10 January 1989

MRS BUTLER

cc: - PS/Chancellor
Sir Peter Middleton
Mr Anson
14/2 Mr H Phillips
Mr Monck
Mrs Lomax
Mrs Brown
Mr MacAuslan
Mr Woolf
Miss Walker
Mr Call

1989 PUBLIC EXPENDITURE WHITE PAPER: CHAPTER 21

The Chief Secretary was grateful for your note of 5 January. He is ^{nervous about} including the proposed figures showing general government capital expenditure falling in real terms over the Survey period, a point which Giles Radice raised during the TCSC hearings on the Autumn Statement. The problem is that the figures exclude the likely allocations from the Reserve, as local authorities overspend in the last year before the new capital control regime. He would be grateful for advice on a footnote to reconcile these figures with his answer to Mr Radice.

att'd)

Handwritten notes in red ink:
Let me see Mr. Anson's
copy, but the CST's
concern is previous
year's figures for
all the years for the plan years
made for in Budget, or that
made for a value
low budget
✓

Signature

MISS C EVANS
Private Secretary

passed on

23 November 1988]

RT HON JOHN MAJOR, MP
MR A TURNBULL and MR J E MORTIMER

[Continued

[Mr Budgen Contd]

the Scottish National Party. So far as the Labour Party changing its policies is concerned, a party which is now determined to follow a supply side socialism, for example whatever that may mean (sounds like horse drawn hang-gliding) does seem to change its policies quite dramatically and I do not think I will form my judgments on the basis of what they feel may or may not happen in Europe as a result of events which may or may not take place in Europe.

Mr Winnick

199. Chief Secretary, reverting to where you have direct responsibility you have given us your answers today and or comments about public expenditure and certainly you have given the impression that all is well and there is no need for concern. I wonder if you can explain why it is that on the ground in our actual constituencies people have to wait months — literally months — to see a consultant, let alone have an operation? The Financial Times' leader of 18th November in dealing with health and education and other subject matters (you may have read the editorial at the time) spoke about growing squalor in this country. Finally, is it not a fact that the whole emphasis when you spoke earlier you conceded you wanted to reduce the public sector, and that is hardly likely to be argued with by anyone round this table, but is it not a fact that more and more as far as the personal services are concerned the wish of the Government is to reduce public provisions in health, education and so on and encourage much more private contracting out: people should be forced, simply because there is no alternative except to wait months or years to have an operation or to see a consultant, to go private?

(Mr Major) Insofar as the Financial Times' editorial is concerned I did read it and I did not agree with it.

200. That does not surprise me.

(Mr Major) It is normally extremely well-informed the Financial Times, but on this occasion it was not an editorial I was able to agree with.

201. It spoke the truth!

(Mr Major) I think it failed to appreciate a variety of things. It failed to appreciate how successful we have been in the last public expenditure round in shifting to priority uses, precisely those priority uses you would approve of, the big increases in capital spending on roads, hospitals, water, safety on London Regional Transport, prisons, precisely those priorities urged on us not just by your party or another party but by Members of Parliament generally. In discussing volume terms the Financial Times made precisely the mistake I mentioned to the Committee earlier, it made the mistake of treating volume inputs as outputs. Insofar as the people on the ground in the constituencies are concerned they will acknowledge the resources that have gone into the National Health Service. The argument, again, cannot be conducted solely on the basis of the money the National Health Service receives but on the performance that the National Health Service provides as a result of the money. Of course, in the

review the Prime Minister is chairing we are keen to ensure the health service provides the same efficiency in health care as in management. It produces a very high quality of health care. We want it to produce effective and efficient management in all aspects of its activities, as it does in health care. I think the extra resources that have been made available, but have not yet reached the health authorities until the allocation of resources is complete and until the new financial year starts will make a material improvement for them contained within the significant increase in expenditure, a substantial amount that will actually be available for service improvements within the health districts.

Mr Radice

202. I wonder if I can help the Chief Secretary on capital spending because he seemed to be surprised at the OECD figures quoted to him by my colleague where we came very low down and said, in fact, the Government had increased or put aside an extra provision of 2¼ billion for capital spending in the year 1989-90. I think probably what causes the problem is shown up by what the White Paper says on page 18, the Autumn Statement, where it says, in fact, the Government is actually planning for a very considerable decrease in local authority gross capital spending. In real terms it will amount to something like 25% over three years. It is probably that which accounts for our very bad record on capital spending.

(Mr Major) Except that that is a netfall not a gross fall.

203. No, gross fall.

(Mr Major) I believe it is a netfall but I will certainly write to you if I am inaccurate.

204. I have just looked at it, it says it is gross.

(Mr Major) Perhaps you could draw my attention to the paragraph?

205. It is paragraph 1.57 and paragraph 1.58, it says "gross", maybe it is wrong?

(Mr Major) It says in paragraph 1.58: "Gross provision in 1989-90 has been increased by £0.6 billion to £7.4 billion . . ."

206. Yes, but if you go to 1.57 you will find the outturn in 1988-1989 is going to be £8.1 billion. If you compare planned with outturn it is not an increase at all, it is a £700 million cut. It is a misuse of language really.

(Mr Major) Yes, I suspect the answer to that is that the right to buy receipts that automatically feed through to higher spending can increase the outturn in the White Paper. That, of course, could happen again next year but we will not know to what extent until the receipts for sales have been taken and the expenditure arises.

207. If the Autumn Statement is wrong it will be useful for the Chief Secretary to let us know.

(Mr Major) No, it is not wrong. The Autumn Statement is correct. The Autumn Statement cannot take account of the expenditure under the present

23 November 1988]

RT HON JOHN MAJOR, MP
MR A TURNBULL and MR J E MORTIMER

[Continued

[Mr Radice Contd]

system which is added in the year as a result of any year's sales of capital assets exceeding forecast levels.

208. There is not a real decline?

(Mr Major) In my understanding there is not; if I am inaccurate in that I will write to you and confirm that.

209. And the Government is not planning for one?

(Mr Major) These are our plans. As you can see there is not a real decline.

210. The figure is £6.8 billion. It says in 1989-1990 the forecast is £8.1 billion, by 1991-1992 the plan is for £6.8 billion, that to me is a decrease?

(Mr Major) There are two factors, the first factor we have within our public expenditure plans, a Reserve of £3½, £7 and £10 billion in each of the three years as one rolls through and the reserve is amended as one rolls through the years. You will find a considerable proportion will be allocated to one or other form of capital expenditure. That will certainly be the case in the outturn figures you have and unless there is an extraordinary behavioural change it will reflect the figures for outturn in later years on the figures we have. We do not expect at the end of the period for there to have been a gross capital reduction. I will, in view of the confusion, look at that and write to you to confirm the answer is correct.¹

Chairman

211. I am not sure I have understood precisely the

¹ See Appendix 9.

exchange that has taken place. Am I right in thinking what you are saying is the figure, again perhaps I might say in year two, will depend on the receipts from capital sales in the previous year and you are saying whether or not there is an increase in actual expenditure depends on that; that, of course, is also a function of the limit which the Government has imposed as far as the local authority spending receipts are concerned. That would seem to me a very erratic way of organising capital expenditure in this way.

(Mr Major) I agree.

212. Presumably it would be possible to adjust it by taking into account the limits imposed?

(Mr Major) You are quite correct and it is precisely for that reason we wish to change the capital control system for it is inadequate. It is not possible under the present system to be precisely certain how many sales will take place in a year and as a result how much money will feed through. One of the purposes of changing the capital control system is to try and get a better control over capital and more positive control over capital than hitherto we have had. That is why we are seeking to change the capital control regime. I will be very happy to incorporate some comments on that in my letter.

213. The intention is, nonetheless, the expenditure should go up in each year, is that correct?

(Mr Major) That is my understanding.

Chairman: Thank you very much, Chief Secretary, we are most grateful to you and your colleagues for answering on occasions very complex and, on occasions, political questions. Thank you very much indeed.

PWP

FROM: S P B WALKER
DATE: 13 January 1989

CHIEF SECRETARY

cc: Chancellor
Financial Secretary
Economic Secretary
Paymaster General
Sir P Middleton
COGPEC
Mr Gieve
Mr Dyer
Mr Woolf
Mr Call

Ch/ Legal Professions Green Paper also targeted for publication at end of month. Do we mind a clash?

Otherwise, are you contact with date, arrangements, letter to No 10 and arranged PQ? @15.

PUBLICATION OF THE 1989 PUBLIC EXPENDITURE WHITE PAPER

We need to confirm to HMSO the date for publication of the PEWP. We had been planning for 31 January, but that would now clash with another important publication. We therefore suggest bringing the date forward to Monday 30 January. If you are content, I attach a draft letter which your private secretary could send to No 10, seeking their agreement to this date.

2. You have agreed the publicity arrangements proposed in Mr Evans' submission of 22 December, and that publication should be at 3.30pm. When No 10 have confirmed their agreement, the date will need to be announced by a means of an arranged PQ (a suggested draft is also attached). We will also circulate a paper to departments giving them details of the arrangements for publication.

[Handwritten signature]

S P B WALKER

* We do. Per check that there is none. If there is just after the L's Ch's paper or No 10's paper or from 6/1 Feb: proposals re green paper. ✓ Told APS/CST 16/1 @15

DRAFT LETTER FROM PS/CST TO

**PAUL GRAY
10 DOWNING STREET**

PUBLICATION OF THE 1989 PUBLIC EXPENDITURE WHITE PAPER

The new arrangements for financial reporting to Parliament agreed with the TCSC mean that the expanded Autumn Statement is now the main announcement of the Government's public expenditure plans. This implies a lower-key launch for the public expenditure White Paper than in previous years, without a press conference.

This year the Chief Secretary proposes that the White Paper should be published on Monday 30 January. Embargoed confidential final revise copies would be made available to the press at 11 am, with full publication at 3.30pm.

If, as in the past, other departments wish to issue their own press notices to coincide with publication, commenting on the plans in their own chapters of the White Paper, these should be cleared in draft with the relevant Treasury expenditure divisions.

If the Prime Minister is content, we will arrange for the date to be announced by Written Answer.

I am sending copies of this letter to the Private Secretaries to Ministers in charge of departments, the Chief Whip and Sir Robin Butler, and to Bernard Ingham.

CARYS EVANS

DRAFT ARRANGED PQ

Q. To ask Mr Chancellor of the Exchequer, when he expects to publish the 1989 public expenditure White Paper.

A. The 1989 public expenditure White Paper will be published at 3.30pm on Monday 30 January, and copies will be made available in the Vote Office.

PWP

FROM: S P B WALKER
DATE: 25 JANUARY 1989

CHIEF SECRETARY

cc: Chancellor
Mr Anson
Mr Phillips
Mr Monck
Mrs Lomax
Mr MacAuslan
Mr Richardson
Mrs Butler
Mr Gieve
Mr Bush
Mr Faulkner
Mr Briggs
Mr Wray
Mr Call

Ch/OK?

015

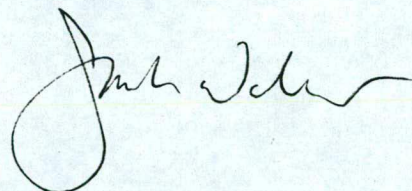
OK

PUBLIC EXPENDITURE WHITE PAPER: PRESS NOTICE

I attach a draft Treasury Press Notice to accompany publication of the PEWP on Monday. In line with the low-key presentation you have agreed, it is short and factual.

2. Several other departments will be issuing much fuller press notices drawing attention to the spending plans described in their own PEWP chapters. This is consistent with our line that the main interest in the PEWP is now the material on departmental plans and performance rather than general expenditure policy.

3. If you are content with the draft, IDT will arrange for the Press Notice to be issued on Monday.



S P B WALKER

DRAFT PRESS NOTICE

The 1989 public expenditure White Paper is published today. It contains full details of the Government's spending plans announced in the Chancellor of the Exchequer's Autumn Statement on 1 November, and the estimated outturn for spending in 1988-89.

Notes for Editors

The White Paper ("The Government's Expenditure Plans 1989-90 to 1991-92", Cm 601 to Cm 621) is published this year in 19 separate booklets (see list attached). The chapters describing each main department's plans can now be bought separately.

The Government announced in a White Paper published in May 1988 ("Financial Reporting to Parliament", Cm 375) that, in line with recommendations by the TCSC, the main announcement of the Government's policy for public expenditure as a whole would be given in the Autumn Statement, which now contains much of the information previously shown in Chapter 1 of Volume I of the public expenditure White Paper. There is therefore no new statement of general policy in the White Paper - its role is to spell out the details of individual departments' programmes. Summary statistical information is contained in Chapter 21.

The estimated outturn for the public expenditure planning total in 1988-89 is broadly unchanged from the figure published in the Autumn Statement (£0.2 billion lower, at £153.4 billion).

- Cm 601 Chapter 1 Ministry of Defence (£2.80)
- Cm 602 Chapter 2 Foreign and Commonwealth Office (including Overseas Development Administration) (£4.00)
- Cm 603 Chapter 3 Net payments to European Community Institutions (£1.80)
- Cm 604 Chapter 4 Ministry of Agriculture, Fisheries and Food (including Intervention Board for Agricultural Produce and Forestry Commission) (£4.80)
- Cm 605 Chapter 5 Department of Trade and Industry and Export Credits Guarantee Department (£3.60)
- Cm 606 Chapter 6 Department of Energy (£4.00)
- Cm 607 Chapter 7 Department of Employment (£4.00)
- Cm 608 Chapter 8 Department of Transport (£4.80)
- Cm 609 Chapter 9 Department of the Environment - Housing
Chapter 10 Department of the Environment - Other Environmental Services (£5.90)
- Cm 610 (not used)
- Cm 611 Chapter 11 Home Office and legal departments (£3.60)
- Cm 612 Chapter 12 Department of Education and Science (£3.60)
- Cm 613 Chapter 13 Office of Arts and Libraries (£2.40)
- Cm 614 Chapter 14 Department of Health (£4.00)
- Cm 615 Chapter 15 Department of Social Security (£4.30)
- Cm 616 Chapter 16 Scotland (£4.30)
- Cm 617 Chapter 17 Wales (£3.60)
- Cm 618 Chapter 18 Northern Ireland (£3.20)
- Cm 619 Chapter 19 Departments of the Chancellor of the Exchequer
Chapter 20 Other Departments (£5.90)
- Cm 620 (not used)
- Cm 621 Chapter 21 Supplementary Analyses and Index (£7.70)

(Complete sets of the above booklets are available at the discounted price of £40).



Ch,

PEWP

No 10 wanted some
bull points on the
PEWP. SEP produced
the attached. OK?

2/15

Mr
Ch...

2/2/89.

Bull points

- Maintaining firm control over expenditure - ratio of public spending to GDP has fallen by about 7 percentage points since 1982-83.
- Ratio in 1988-89 (39½ per cent) will be below 40 per cent for first time in over two decades.
- ~~Ratio in 1991-92 (38½ per cent) will be lowest since 1966-67.~~ *PEWP indicates further decline over next three years.*
- Planning total for 1989-90 (£167 billion) unchanged from last year's plans.
- Real growth in spending 1988-89 to 1991-92 (GGE excluding privatisation proceeds) about 1½ per cent a year, well within growth of economy as a whole.

- Increased spending on priority programmes: in 1989-90
 - over £2 billion extra resources for the NHS,
 - over £500 million extra gross investment in housing in England alone,
 - over £250 million extra for transport:
 - more money for defence, law and order, science.

- Increased public sector capital spending:
 - over £2.6 billion more than last year's plans in 1989-90, including:
 - an extra £170 million in the NHS in England,
 - £140 million for prisons and court buildings,
 - £220 million for motorways and trunk roads in England,
 - nearly £600 million of new capital investment by the nationalised industries.
 - Compares with cuts in capital spending under Labour (30% real terms cut in NHS capital investment between 1973-74 and 1978-79, 41% real terms cut in spending on motorways and trunk roads over same period).

- Higher spending on priorities made possible by success of Government policies:
 - lower unemployment,
 - improved performance by nationalised industries,
 - reducing burden of debt interest,
 - improved value for money.

Value for money

- PEWP contains evidence of improvements in value for money across the whole range of public spending: demonstrates Government's commitment to getting better value for money for the taxpayer.

Examples:

- NHS cost improvement programmes in England expected to yield an extra £150 million in 1989-90.
- Since 1984-85 some 2,000 hours of delay to road users, valued at about £35 million, have been saved by the use of "lane rental" contracts for road maintenance work.
- In 1987-88 Customs and Excise achieved a reduction of nearly 23 per cent in the average arrears of VAT compared with 1986-87.
- In the Crown Courts, average waiting times for committal for trial have fallen by 20 per cent since 1983 despite increase in workload of over 40 per cent.

- Average productivity growth in the nationalised industries has been 7 per cent in 4 years to 1986-87, much faster than economy as a whole.
- 155,000 fewer civil servants since 1979, a net efficiency saving of 111,000 after taking account of hiving off, privatisation and contracting out. Equivalent to productivity increase in excess of 2 per cent a year, saving about £¾ billion a year on pay bill.

New format for the PEWP

PEWP published for the first time this year as a set of separate booklets. Means that chapter dealing with each main department available separately.

1988 Autumn Statement contained much of the information given in previous years in Volume I of the PEWP (real terms figures, debt interest, more explanation of departments' plans). Means that no new statement of public expenditure policy in PEWP, only more details of plans announced in November. Detailed statistical material in last year's Volume I this year in Chapter 21.

First stage in transition to new arrangements for presenting public expenditure information to Parliament, following PAC and TCSC recommendations. Change will be completed in 1991, with replacement of PEWP by departmental reports, to be published in March alongside Estimates, and expanded Autumn Statement supplemented by statistical summaries in January.

Price: Full set of PEWP costs £40 this year, compared with £31.80 in 1988.

Obviously more expensive to produce 19 separate booklets than last year's two volumes. Those who only want one or two chapters will pay less than last year.



FROM: B O DYER
DATE: 2 February 1989

01-270 4520

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Gieve
Mr MacAuslan
Mr Pickford
Ms Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

PUBLIC EXPENDITURE WHITE PAPER DEBATE

I have been advised by Murdo MacLean's Office that Gordon Brown will wind up for the Opposition on Thursday 9 February; and John Smith will open, as recorded in your minute earlier today.

2. Later that evening (9 February), when the Economic Secretary moves the motion to take note of the EC Banking Directives, Stuart Holland will lead for the Opposition.

A handwritten signature in black ink, appearing to read 'B O Dyer'.

ff B O DYER

PEWP



FROM: MISS C EVANS
DATE: 2 February 1989

PS/CHANCELLOR -2.

Ch / For info (and attached)
=> . DIS

- cc: PS/Financial Secretary
 - PS/Paymaster General
 - PS/Economic Secretary
 - Mr Gieve
 - Mr MacAuslan
 - Mr Pickford
 - Ms Simpson
 - Mr Dyer
- Mrs Chaplin
 Mr Tyrie
 Mr Call

PUBLIC EXPENDITURE WHITE PAPER DEBATE

The Chief Secretary saw John Smith in the House last night. Mr Smith said that he would be leading for the Opposition in the PEWP debate next week. He did not say who would wind up but the Chief Secretary thought it would probably not be Mr Brown.

NOTED

CE

MISS C EVANS
Private Secretary



PS Chancellor

The Chief Secretary
will be working
on this overnight

Cavan

Ch/ an interim draft, on
which a few comments
marked. NB debt
section (page 13)
which is a bit bold.

mpw.
A few
further pts,
passm. passed
on.

MP

7/2/89.

2CHIEF SECRETARY'S SPEECH FOR THE PEWP DEBATE

I beg to move, that this House takes note of the White Paper on the Government's Expenditure Plans for 1989-90 to 1991-92 (CM 601-621)

2. This is the tenth year in which this Government has published a public expenditure White Paper. In those ten years the improvements in our economic prospects have been mirrored by a transformation in the management of public expenditure. And at the same time the format, coverage and content of the White Paper have improved beyond recognition.

Fiscal Policy

3. Mr RHF's Autumn Statement revealed that we now have the strongest fiscal position of any industrial nation in the world. That is no accident. It is the direct result of the continuing policy of firm control over public expenditure that we have followed for a number of years. That policy has played an important part in the restoration of our economic fortunes, and in the current strength of our economic performance.

4. It is the right policy for the economy. And it is the right policy for the taxpayer too. Public spending has a central role to play in the provision of the community services that we all care about. But it differs from private spending in one important respect. It involves spending money compulsorily extracted from the taxpayer and then spent on his/her behalf by the Government on priorities that the Government determines. It follows therefore, that the Government has two clear responsibilities.

5. First, spending other people's money must be justified on merit, whether social or economic. Secondly, it should be limited to the sum necessary to meet those social or economic needs. Our policy is controlled growth, growth we know we can afford. By being prudent we do more in the long run for services. Within these parameters public spending has an important and worthwhile role to play; beyond them it can be an unsustainable drain on the nation's resources, as the Opposition proved between 1974 and 1979 when borrowing reached over £110 billion in today's terms and inflation soared.

Sounds v. quotable

*Public
Opposition
to the
govt. has had to
be slashed - 1974-79
govt. has had to
2*

6. Firm control of the level of public expenditure, and the right choice of public spending priorities, are absolute pre-requisites of proper economic management. That has proved to be true in the past and it will remain true in the future. There should be no expectation - ^{in any} ~~on my~~ part of the House or beyond - that a fiscal surplus will encourage additional expenditure that cannot be justified, [and cannot be sustained.]

The White Paper

7. This year we have made two important changes to the White Paper. First we have brought forward much of the material on the public expenditure totals to the Autumn Statement in November. The House has debated that statement, and, at that time considered the Government's overall policies for public expenditure. The White Paper now before us focuses on the detailed composition of the spending plans.

8. Second, we have split the White Paper into separate volumes for each department. This makes it much more accessible and easier to use. For example, from now on someone interested in the cost of Scottish roads needs to buy only the Scottish volume. I believe the departmental Select Committees will find this approach much more convenient. It also moves toward the creation of separate departmental reports which, from 1991, will be published with each

Department's Main Estimate. This will improve clarity and assist the House in its scrutiny of departmental programmes and Estimates.

9. These changes reflect helpful recommendations from the Treasury and Civil Service Select Committee, and from the Committee of Public Accounts. I am sure they will be welcomed by everyone who uses the document.

10. I am grateful also to the TCSC for recognising the vast improvements in recent years in both the quality and quantity of the information provided in the White Paper. It has expanded dramatically from a single slim volume in 1979 to 19 volumes this year. The House will be relieved to know that the expenditure itself has not grown at the same rate.

11. It is not a dry document. It is a detailed and comprehensive account of our stewardship of public expenditure. It provides more and better information than ever before on how we spend the public's money. And the wealth of material in the White Paper reveals beyond any doubt that we pay the same close attention to the detail of expenditure as we do to the overall totals.

Control of Public Spending

12. But it is the substance of the White Paper - rather than its presentation - that is really important. And this White Paper illustrates deep changes in the quantum and distribution of public expenditure. In the decade to 1978-79, the average real growth in public expenditure was nearly 3 per cent. In the decade since 1978-79 we have halved that growth, so that it is now comfortably within the growth of the economy. The growth in the ratio of public spending to national income, which had been rising since the mid 1950s, has been halted and reversed. Indeed the ratio has fallen further and faster over the last 7 years than at any time since the war. It is now at its lowest level for ~~20~~^{over} years and set to fall still further. We are now living within our means and not beyond them.

13. We have re-established control of public spending. This change underpins the improved performance of the British economy. For firm control over public spending is - as it always has been - a key element in our financial strategy. We want - and now have - fiscal prudence and lower taxes. And we have it because of stable planning, value for money, and sound finance. This firm control means we need no panic cuts of the sort we saw ^{under Labour} in the 1970s which damaged so many services.

14. The firm control we have exercised has been widely caricatured by the Opposition as cuts. Planning and control do not lead to cuts. It is letting public spending rip, spending like there is no tomorrow, that leads to periods of austerity and disruption and cuts. The rollercoaster approach to public spending may seem like fun and can be popular to begin with. But it turns sour and always ends in tears, as the last Labour Government proved so comprehensively.

15. This Government has no intention of losing sight of that reality. Our success has allowed increases in priority programmes ^{rather than} (and not) reductions. But success is built on tough decisions and difficult choices on priorities will continue to be needed.

16. We have faced up to those choices. That is why this year our policies have ensured a remarkable hat trick - we have repaid debt in an unprecedented amount, reduced tax rates at all levels, and provided extra resources for priority programmes, ~~that actually exceeded the amounts the Opposition bid for, and did not expect us to provide.~~

No: this makes them
6
sound responsible.

Health

17. Take the National Health Service, which we made a top priority in the last Survey. Perhaps I could ask the Hon Member ~~another~~ question. Is he content with the increases in resources we have made available to the NHS compared with previous plans - over £2 billion next year and £2½ billion the year after? These record sums are more than he said this time last year was necessary. I quote from the Hon Gentleman's Pre-Budget press conference last year. "We believe the minimum extra provision which should be made in the Budget is £2 billion". The Hon Gentleman had his answer in the Autumn Statement and it exceeded his demands.

18. Real resources for health care have been increased by over one third [37 per cent] since 1978-79. As a result, in England alone, there are now 77,000 more doctors, nurses, and other staff caring directly for patients than at the beginning of 1979. And they are better paid. And they are better equipped.

19. But the increase in resources - massive though it is - is only half the story. The number of patients treated has increased faster than the level of resources. The NHS in England is now treating 1½ million more in-patients, 2.6 million more out-patients and 440,000 more day cases than in 1978. The number of coronary artery by pass grafts has quadrupled, cataract operations have more than doubled and bone marrow transplants have gone up 15 times. Better performance by the NHS has meant better health for the nation. The death rate fell in all age groups between 1979 and 1978; for children under one and aged 5 to 9 death rates have fallen by about a third. And the proposals we announced last week will produce a still better, more responsive and more efficient health service. We are not privatising the NHS, as the Hon Gentleman for Livingston absurdly suggests. His leak on this matter was as inaccurate as his leak on the level of community charge reimbursement some months ago. Better luck, next leak. The fact is we are modernising the NHS, making it more efficient and better resourced. Perhaps the Opposition had better do the same for the Hon Gentleman Livingston since he is the same age as the NHS and just as much in need of reform.

Science/R & D

20. One priority area that benefited particularly during the Survey was scientific research. Again the Opposition talk of less spending where the reality is more. The Science Budget is set to increase by 16 per cent next year.

21. This increase illustrates the intention to maintain and enhance quality across the science base that we have demonstrated throughout the last decade. In the ten years from 1979-80 to 1989-90 the real increase in the science budget has been nearly 30 per cent. The science budget has fully kept pace with the strong growth of the economy.

22. This is in sharp contrast to the treatment of science under the last Labour government when its budget fell by 6 per cent in real terms from 1973-74 to 1978-79. ~~And fell also as a proportion of national income [from 0.18 per cent to 0.16 per cent].~~

*pushing
it a bit!*

23. During the last ten years research funded from the science budget has led not just to the much publicised discovery of the hole in the ozone layer, it has also contributed to many other - if less well known - developments. It has provided:-

- (i) a continuous infusion pump for diabetics which removes the need for regular injections;
- (ii) an ultra powerful electron microscope that has helped ICI make some of the best super conducting ceramic wire in the world; and
- (iii) a ventilator for neonatal intensive care units that switches on automatically when a sick baby needs oxygen.

24. Our record in international terms is excellent. During the Autumn Statement debate the Hon Member for Dunfermline East claimed that other countries are spending more than us on research and development. It is tedious to correct him again but the facts are different. In 1986 Government funding of research and development was higher as a proportion of national income in the UK than [in West Germany or Japan or] many other industrialised countries - He

also claimed that many major UK companies are having to recruit graduates from abroad because of the skill shortages caused by lack of investment in training. Wrong again. Some 133,000 UK students were awarded first degrees last year compared with some 104,000 in 1979 - an increase of nearly 30 per cent. It is not lack of investment in higher education that encourage graduates from abroad to come and work in this country. They work here because they want to share in the buoyancy of our economy, our low tax rates and the growth in the UK job market. That is why they come now but did not come before 1979.

Environment

25. Our plans include substantial increases to improve spending on the quality of the environment both in the cities and in the countryside. In the inner cities we are improving the environment across the board, by investing in infrastructure and housing to create a wholly new climate in which enterprise can prosper. Spending on the inner city initiative task forces will rise by 50 per cent over the next three years. Already they can claim credit for 4,000 jobs and 20,000 training places. In addition, the White Paper details the impressive outputs from the

Urban Development Corporations and from City Grant - for which total resources will grow from just over £300 million this year to nearly £500 million at the end of the plan period. The London Dockland Development Corporation has contributed to the completion of 15,000 new homes, the emergence of 1,200 new firms in the area, the commitment of over £4 billion of private investment, and 20,000 jobs.

Law and Order

26. The White Paper shows our continuing commitment to tackle crime. Provision for the police is up by £240 million in 1989-90 and a further £270 million in 1990-91. This means an extra 1,100 police officers, in uniform, next year. And while we are seeking a greater role for non custodial services for less serious crimes we have at the same time increased prisons capital spending by £260 million next year and £370 million in 1990-91. This will improve conditions for those in custody at existing prisons and provide an extra 300 places in 5 new prisons by 1992.

Debt

achievement in
| X

27. I want to turn briefly to our ~~policy of~~ ^{repaying} ~~reducing~~ debt. The stock of government debt has built up virtually without interruption since the war, reaching £171 billion two year ago. As a result this year we will pay £18 billion in interest alone on that debt. That is the equivalent of over 10p off the basic rate of income tax. That money is dead money for today's taxpayers. It does not build roads. Or railways. Or improve the NHS, or education, or defence. It simply pays the interest on past debts.

better stick to "balanced budget is the norm" ? ✓

28. Our policy is clear. We will not add to that debt by current consumption. In fact we are going further than that at present. We are repaying debt.

identify as AS forecast. ✓

In the last fiscal year we repaid £3½ billion, and in the current year we expect to repay a further £10 billion, equivalent to around one twelfth of the outstanding stock of debt.

no: this yr

last year = this

no

29. It means also that [between [this year] and [1991] we will reduce the amount of debt interest we pay by over £2 billion. These sums will be available either to improve services, or to reduce taxation or indeed, to further reduce debt. This is the largest sustained debt repayment for a generation.

each year

debt int
-2bn 1991

13
between this
WP & last
one
in 1991 has
fallen by
over 2 billion

57
1989, & we will
as the
future repay-
ment we
budget

Capital Investment

30. Last month, My RHF the Chancellor of the Exchequer asked the Hon member for Dunfermline East by how much he would increase public expenditure. We still await an answer. Nor am I optimistic that we will get one because Hon Gentleman clearly doesn't know. He is into promises but not into costing them. [Let me help him with a few I've seen. [List from Andrew Tyrie to come]. No wonder Rt Hon Gentleman Monklands said on January 22nd: "I will be keeping a careful eye on commitments". And a careful eye on the Hon Gentleman Dunfermline too, if I'm any judge.

you had thought earlier, better let Labour come up with a low number, then AGT can disprove it. Worth waiting for an answer, not helping?

(?)

31. In the meantime, - in a spirit of helpful inquiry - perhaps I could add another question on capital spending which is an issue of importance to both sides of the House. It is a simple question that the Rt Hon Gentleman will undoubtedly wish to respond to. It is this:- Which does the Opposition prefer - this Government's record on investment, or its predecessor's?

32. Perhaps I could help out Hon Gentlemen opposite before they answer. The Hon Gentleman Dunfermline complained last month that general government investment was falling. He made that claim on the basis of the wrong figures. The figures

he used were not the figures for total gross investment. His figures were net of receipts of council house sales. They exclude the new investment financed by those receipts. By his logic if I sell my house and use the proceeds to buy a new house, ^{build} [the value of my investment is reduced by those proceeds.]

housing investment hasn't increased, even though there's another house and another homeowner.

33. If that is got right, it is clear that General Government investment was [about 15 per cent] higher in real terms in 1987 than in 1979; and that it was [3 per cent] higher in the first 3 quarters of 1988 than in the equivalent period of 1987. By contrast, between 1973-1978 the Government investment figures fell [by over 30 per cent] . Unlike the Hon Gentleman I have not confused gross and net spending in these comparisons because, of course, the Opposition did not permit council house and other sales and so the availability of receipts to add to spending did not arise. So I hope the Rt Hon Gentleman will spare us lectures based on the wrong figures and answer the straight question. Whose investment record does he prefer: ours/with more investment, or the last Labour Government's with declining investment? Does he prefer the efficient and effective public services we now have or the impoverished services we inherited?

34. Let me help him further by reminding him of the real figures. For 1989-90 we have increased provision for capital spending by a massive £2½ billion, bringing total government investment to a record £27 billion.

35. This includes substantial extra investment in roads and on public transport. An extra £220 million is being provided next year for motorways and trunk road, with a further £250 million in 1990-91. And there is substantial extra investment in London Transport, including improved safety standards and refurbishing the Central Line.

36. Compare this with Labour's record. In the 10 years since 1979, real spending on motorways and trunk roads has ~~already~~ gone up by 30 per cent. ^{increase} Our plans provide for a further 20 per cent ^{by} 1991. [It fell by 40 per cent under Labour.] The record is the same for capital spending on the National Health Service in England. Up by 30 per cent in real terms since 1979. Down by over 30 per cent under Labour. The record of successive White Papers speaks for itself and when the Hon Gentlemen speak for the Opposition they should acknowledge that record and not misinterpret it!

[37. In the last Survey we added [£440] million to gross capital provision for housing in England alone for next year. Spending this year is already 9 per cent higher than last.]

38. The Hon Gentleman's figures for investment also neglect investment by public corporations. Perhaps he thinks investment in water or in railways unimportant. This Government does not, as the White Paper shows. How much higher does the Hon Gentleman think British Rail's investment in railways will be in 1991 compared to 1978-79? 5 per cent, 10 per cent, 20 per cent, 30, 40, 50 per cent? No. I will tell him. Investment in railways is set to be over 75 per cent higher in real terms by 1991, the biggest renewal programme since the switch from steam to diesel. Between 1973-74 and 1978-79, investment in railways hardly increased in real terms.

John was 'real'
'volume' : um 'real'

39. We have increased investment in water in every single year since 1979. Investment by the Water Authorities is this year half as high again in ~~volume~~ terms as 10 years ago. And we have in place a £1 billion programme to improve sewage treatment works over the next four years. Compare this to the chronic under investment in the 1970s. Investment in water was cut by 25 per cent in the 5 years to 1979-80. The led to an outdated and overlooked sewage treatment and sewerage system.

YUK!

40. The lesson is clear. A successful economy can invest and an unsuccessful one cannot.

Industry and Employment

41. One of the most striking changes in ~~expenditure~~ over the past 10 years is the dramatic fall in public expenditure resources spent on the nationalised industries. Note that I said spent on the nationalised industries not spent by the nationalised industries in providing services. The fact is that since 1978-79 the total external finance required by the industries has fallen in real terms by nearly £5 billion. This means a saving to public expenditure which we have been able to reallocate to higher priority programmes.

42. These savings have come about as a result of the transformation in the performance and productivity of the industries, which match the turn-around seen in manufacturing industry generally. In aggregate today's nationalised industries have increased their productivity by an average for 7½ per cent a year in recent years. Last year they made a profit of £¼ billion. [Labour comparison]

43. What is surprising is that the Opposition describe these savings as cuts. In the debate last month the Hon. Member for Dunfermline criticised cuts in spending on industry, and energy programmes. To do so is completely to miss the point on why spending by the taxpayer on energy is lower. The answer is because of the improved performance which I have just described. But there is no reduction in spending on energy programmes or investment. The Hon Gentleman is wholly wrong to imply that. On the contrary the electricity industry for instance will generate more internal resources, so that it can at one and the same time invest £200 million more next year than this, and repay more borrowing. The Hon Gentleman has not acknowledged this and I suspect that is because he did not know it. In any event what he said in the Autumn Statement debate was wholly

misleading. [OR Col 1019]

44. Spending on industry is also lower. But not because of so-called cuts. This is the result of the fact that Rover will no longer be a drain on the exchequer, now that it has successfully been restored to full and profitable private ownership. Over the last decade, the taxpayer has coughed up over £3 billion for Rover, but from next year the need has gone. No doubt the Opposition will describe this as a public expenditure cut.

45. The position on employment is similar. Spending by the taxpayer is lower. But that reflects the fall in unemployment which has led to savings in unemployment benefit payments of over £1½ billion a year over the next 3 years. This shows clearly the savings which result from the success of our economic policies. Indeed the fall in unemployment illustrates dramatically the contrast between our policies and those of the Opposition. They said we should spend more to reduced unemployment, we are spending less because we have reduce^d unemployment.

46. Over the years in the PEWP debates we have had many lectures from the Opposition on the case for higher public expenditure. One of the old favourites is that more public spending is the only way to reduce unemployment [Quotes]. Look at what has actually happened. Since June 1983^{6?} unemployment has

fallen in every single month, for 29 consecutive months. And not just in the South East. Unemployment has fallen in every single region, and has fallen fastest in Wales, the West Midlands and the North West. The rate of unemployment is now lower than France, Belgium, the Netherlands and Canada. And the number of people in work is at its highest ever level, even after excluding those on community schemes and training programmes. It could only be done by public expenditure they said. We have done it without boosting public expenditure to unsustainable levels. We have done it by liberating the private sector, by creating a fast track economy currently generating 1000 new net firms a week. And when benefit spending falls as a result, the Opposition point to cuts. If these are cuts then they are cuts, we are proud to secure and I hope there will be more of them.

Peroration

47. The Government that knew about cuts was the last Labour Government. ^{in their first 5} (Between 1973-74 and 1974-75) they increased spending by [12 per cent] in real terms. Then, inevitably, the brakes had to be slammed on, the IMF brought in and spending cut by 8 per cent in real terms.

48. Hon Gentleman opposite have still not learnt the lesson that control of public spending is a fundamental part of a credible economic strategy. But it is inescapable, as the Governments of every country must eventually come to recognise. Even the Politiburo has learn that lesson. [Tass quote] "Bearing in mind the great difficulties in financing public expenditure, and the growing budget deficit, which leads to unblancing the country's economy, the Government requires drastic measures to reduce public expenditure and cut down capital investment"

49. The government of the Soviet Union understands what cuts mean.

50. The plain fact is that cuts are the inevitable result of ^{sustainable} unplanned growth. Allowing public expenditure to grow inexorably is the easy choice in the short-term. Saying yes to every interest group, piling up commitments with no regard to priority or affordability - that is the legacy we inherited and the one we have firmly rejected. Because profligacy with public spending, recklessness with other people's money, is a negation of government. The first duty of government is to be prudent and responsible with the nation's finances. That principle is at the heart of our management of public expenditure. The plans in this White Paper are sustainable, they are affordable and they rest on a sound and strong economy. I commend them to the House.

STN 15 be slotted in

Value for money

51. But extra spending is only part of the story. The White Paper has scores of illustrations of better value for money, higher productivity, and targeted increases in resources for priority programmes. I will give just a couple of examples.

52. 6,000 severely disabled people will, be given normal jobs in sheltered placements next year, compared to 3,200 last year - an acceleration of the increase already built into the previous plans. The Office of Population Censuses and Surveys has notched up productivity improvements in its registration activities of $7\frac{3}{4}$ per cent a year on average since 1983. Over the same period the Crown Courts have reduced average waiting times for committal to trial by 20 per cent despite an increase in workload of over 40 per cent.

53. Relocation is a key aspect of our search for better value for money. My Rt Hon Friend the Paymaster General's Written Reply of today shows that our policy of encouraging departments to find locations offering better value for money and easier labour markets has got off to a good start. [Some 15] per cent of posts now in London and the South East (over 34,000 in all) are being reviewed. Not

all of these posts will move ^{and} departmental Ministers, will inform the House ~~where their decisions involve~~ ^{of} sizable transfers. Since 1987 relocation decisions totalling some 3,000 posts have already been announced, [most recently when my Rt Hon Friend the Secretary of State for Social Services last month reported plans to transfer over 1,000 posts to Glasgow, Belfast and Wigan in the next two years]. ~~But~~ ^{We} we are confident that, in the coming years, this policy will add very significantly to the 12,000 posts located or relocated outside London and the South East between 1979 and 1987. We also expect it to contribute to the better national balance in labour markets and job opportunities that our general economic policies are already achieving.

Small Gems

54. I have mentioned a member of substantial increases for the major programmes. But within the plans there are a number of smaller increases which are enormously important to those affected by them. We found £5 million this year for the Motability scheme to enable Motability to increase provision of special vehicles for the disabled; £6½ million to improve the exceptionally cold weather social security scheme; £6 million to give up to 6000 ex-colonial pensioners credit for war service in their pensions; £6 million for flood protection; £2 million

for Hepatitis B jabs; £1 million for research into renewable energy; £6 million for tree planting and storm damage; and extra money to help regions most heavily affected by AIDS cases.

mp

FROM: MARK CALL
DATE: 7 FEBRUARY 1989

- 1. CHIEF SECRETARY
- 2. CHANCELLOR

cc Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Tyrie

PEWP DEBATE BACKBENCH BRIEF

I attach a final draft of the PEWP brief, which incorporates the comments of GEP and Divisions. If you have no further points I will arrange for copies of this to be placed in the Whips' office tomorrow morning.

X/

Passed on to Camps. m.

MC
MARK CALL

ENC

Ch/

Needs shortening + re-ordering: CST has not yet seen + will be looking at it overnight. If there is time you'd see his redraft tomorrow - tho' if X is a real deadline (new to me) given yr diary tomorrow you might have to leave to CST.

mp

*John Miles.
(The section on the economy, shd be based on brief, shd be based on debate last week. updates on week)*

PEWP DEBATE BACKBENCH BRIEF

1. Background to PEWP debate
2. More spending on priorities
3. The economy has been transformed
4. Value for Money
5. Capital Spending: the records compared
6. Repaying Debt
7. Labour's Policy Vacuum

Annex: The Programmes

1. BACKGROUND TO PEWP DEBATE

In May 1988 the Government announced in a White Paper that, in line with recommendations by the Treasury and Civil Service Select Committee, the main announcement of the Government's policy for public expenditure as a whole would be given in the Autumn Statement. Thus the 1988 Autumn Statement contained much of the information previously shown in the introductory chapter of the Public Expenditure White Paper. The PEWP, published last week, therefore spells out the details of individual Department's programmes, and deliberately contains no new statement of general policy. The general economic situation, the economic outlook and the Government's overall public expenditure policy were thoroughly debated in the Autumn Statement debate on 12 January 1989. Annex A contains detailed background to today's debate on the departmental spending plans contained in the PEWP.

2. MORE SPENDING ON PRIORITIES

Policies to stimulate enterprise and sound management of public finances, together with a clear sense of priorities, have allowed the Government to spend more on priority programmes. ^{Reductions in some areas} Spending by the Department of Employment has fallen almost £300 m in 1989-90 because unemployment itself has fallen dramatically. Lower spending on agriculture (down £390 m in 1989-90) reflects the lower cost of CAP market support. Reductions like these have allowed increases in key areas:

- More for health: total increase in resources for the Health Service in the UK as a whole over £2 billion in 1989-90 (a real increase of 4½% on this year's outturn) and over £2½ billion in the following year. By far the largest increases the Health Service has ever received.
- More for roads: an extra £220 million next year, and £250 million the year after.

- More for railways: Investment in railways set to rise by 35% in real terms over the next 3 years - the biggest renewal programme since the switch to diesel.
- More for housing: gross spending up by over £400 million (GB) a year.
- More for law and order: an extra £630 million next year and over £800 million the year after.
- More for defence: an extra £175 million next year and £610 million the year after.
- More for science: the science budget will rise by 16% in the next year alone.
- More capital spending: a total of £2½ billion more in 1989-90, with substantial extra investment in hospitals, housing, prisons and roads.

3. THE ECONOMY HAS BEEN TRANSFORMED

The economy has been transformed since 1979 as a result of the success of Conservative policies.

- Inflation has been brought under control. Averaged under 5% over past 5 years. Under Labour averaged 15½%. Labour never managed to get it below 7%.
- Living standards up across the earnings scale. Married man with 2 children on average earnings, £46 a week better off in real terms now than in 1978-79 (up 29%). Under Labour rose £1.
- Industry is in good shape. Manufacturing output is at the highest ever level. UK manufacturing productivity growth in the 1980's higher than all other major industrial countries; in the 1960 and 1970s it was the lowest. Company profitability highest for 25 years.

- Unemployment fallen for 29 months in a row, by over 1 million in total - the longest period of falling unemployment since the War. Fallen in all regions in the past year.

Now into 8th successive year of sustained growth
 - Growth has been sustained for 7 successive years. *at average rate of 3%* Far *are* cry from years of stop/go over which Labour presided.

- Investment is booming, having grown around twice as fast as consumption over the past 5 years. Manufacturing investment is forecast to be up 18% in 1988. Investment intentions remain strong, and are a vote of confidence in the Government's policies.

We need to sort this out. EB brief has "changed little since 81" which is OK until Budget time tho' perhaps disingenuous.

- Exports. The fall in the UK volume share of world trade in manufactures has slowed markedly since 1981, after decades of rapid decline. [I am advised by EA that we cannot be as bullish as the Bull point in the TWEB and it may be better to drop this point.]

X

4. VALUE FOR MONEY *But X certainly not worth writing up.*

The Government has a duty to the taxpayer to achieve the best value for money in public spending, and it is committed to doing so. As a result, more resources are freed to be spent on worthwhile programmes.

- Since 1979, efficiency scrutinies have saved over £1.4 bn on a cumulative basis.
- Departments achieved savings of £252 m in 1987-88 in purchasing and supply.
- Market testing has produced savings of £170 m a year.
- Cost improvement programmes in the NHS are expected to yield over £700 m by the end of the current financial year, all of which will be ploughed back into the NHS.

- Since 1979, the number of civil servants has fallen by over 150,000. The productivity increase suggested by this has produced a massive saving for the taxpayer of perhaps £¼ billion a year.

5. CAPITAL SPENDING: THE RECORDS COMPARED

In addition to the investment boom which is underway in the private sector, the Government plans an extra £2¼ bn of public capital spending next year. That will take annual public capital spending to over £27 bn a year. We have maintained vital capital spending, while Labour cut it. Under Labour, public capital spending fell by over 10%.

Labour's cuts and failure to invest are even more striking when specific programmes are considered (real terms changes):

	<u>Under Labour</u> (73/4-78/9)	<u>Already achieved under Conservatives</u> (78/9-88/9)	<u>Planned Increases</u> (88/9-91/2)
NHS Capital	-30%	+31%	+10%
Motorways and trunk roads	-41%	+30%	+19%
Prisons (England & Wales)	-64%	+219%	+59%
Railways capital	+8%	+32%	+35%

6. REPAYING DEBT

Unique among G7 countries, the UK Government is repaying debt. At the start of this year the national debt stood at over £170 bn.

Annual interest payments are expected to amount this year to some £18 bn - money that is not available for spending on programmes, but simply to cover interest. The 1988 Autumn Statement forecast was for a debt repayment of £10 bn this year. *Releases resources etc.*

In contrast to this Government's responsible approach, Labour went on a spending spree between 1974-75 and 1978-79 which the country could not afford, increasing borrowing by over £110 bn in today's prices. This not only fuelled inflation, but left a legacy of debt.

7. LABOUR'S POLICY VACUUM

Over a year after the Policy Review began Labour's economic policy is no clearer. All the indications are that it has not changed its ways:

- Labour is still the high tax party. Mr Smith confirmed recently that they would raise the top rate of income tax to 50p. That is really 59p since they would also abolish the NIC Upper Earnings Limit. ^{for employees} [Paul McIntyre questioned the propriety of mixing taxes with NICs.] Further, Labour is even ambivalent about the basic rate - they have never voted for the cuts in tax rates that the Government has undertaken.
- Labour is the high spending party. The public expenditure commitments continue to mount. So alarmed was Mr Smith that he recently felt the need to slam on the brakes: "I will be keeping a very careful eye on our commitments", Sunday Times 22.1.89.
- Labour remain the party of meddlesome intervention. They propose renationalisation under another name - social ownership. They propose to introduce rationing of borrowing by consumers through the use of credit controls - even though Mr Smith has accepted that they would not work in the longer term. The new marketing label applied to Labour's economic policy gives the game away - Supply Side Socialism. A simple contradiction in terms.

While making
their own
credit card
@ the same time

ANNEX: THE PROGRAMMES

HEALTH Over £2 bn extra resources will be made available to the Health Service in the UK in 1989-90 compared with previous plans, and over £2½ bn in the following year, representing the largest ever increase in resources. As a result spending on the NHS will be up by around 40% in real terms between 1978-79 and 1989-90.

The resources being made available to the Health Service will allow:

- health authorities to expand services significantly
- Project 2000 training for nurses to be phased in from 1989-90
- more training places for nurses in paediatric and intensive care units
- extra money for exceptional costs imposed on certain regions by AIDS cases
- full funding of the cost of the Nurses Grading Review and of the 1988 Review Body pay awards

The NHS is working better than ever before, and a record number of patients are being treated. As compared with 1978 there were in 1987-88 in England alone in the HCHS:

- over 1¼ m (23%) extra in-patient cases
- 440,000 (79%) more day cases
- 2.6 m (16%) more out-patients attendances

The number of staff providing direct patient care has increased from 444,000 in 1978 to 523,000 in 1988 (HCHS England).

Capital Spending on the Hospital and Community Health Service in England is up by 31% in real terms between 1978-79 and 1988-89. During Labour's term of office it fell by nearly 30%. The biggest building programme in the history of the NHS is now under way, with over 500 major schemes and a total value of £4 bn.

SOCIAL SECURITY Full uprating of all benefits except Child Benefit, which has been maintained at £7.25 per child per week. But families on Income Support and Family Credit are fully compensated for the Child Benefit freeze, and in addition they are getting an extra £70 m a year. There is also an extra £6.5 m for the cold weather scheme which has been improved and rationalised.

Higher take-up is causing increased expenditure on disability benefits. The cost of the upratings and the other increases in provision will be partly offset by savings resulting from the fall in unemployment and the decision not to uprate Child Benefit in

April 1989, and as a result the programme will be broadly unchanged in 1989-90, compared with previous plans. Provision will be about £1,700m higher in 1990-91, compared with previous plans. Average annual increase in provision is about 2% in real terms between 1988/89 and 1991/92.

Provision is included for changes to Housing Benefit announced last April and for help for Income Support claimants towards the average 20% payments of rates and the Community Charge.

The benefit rates announced by the Secretary of State are the higher of those calculated directly from the published increase of the RPI for the year to September 1988 (5.9%), and those derived from a recalculation to take account of the RPI error discovered in November 1987. In addition the plans provide for further upratings of benefits in April 1990 and April 1991.

Entitlement to Mobility Allowance, which has been increased to £24.40 a week, has been extended from age 75 to 80 to enable many elderly disabled people to retain the use of a car.

TRANSPORT Increases of over £100 m in 1989-90 and £140 m in 1990-91 have been allocated to build new trunk roads and motorways. Starts on 137 miles of new road are planned for 1988-89, including 19 by-passes. About 40 schemes which would add more than 200 miles of new road are planned to start in 1989-90.

Total spending on trunk roads and motorways in England is planned to be 24% more in 1989-90 than in the previous year in cash terms. Between 1978-79 and 1989-90 capital spending on trunk roads and motorways in England alone will have increased by over 50% in real terms. This contrasts with a fall of over 40% from 1973-74 to 1978-79 under the Labour government.

£66 m more will be provided for trunk road maintenance in 1989-90 and £70 m in 1990-91. Nearly £50 m extra has been provided for bridge strengthening in 1989-90.

British Rail is undertaking a massive investment programme - £2.5 bn over the next 3 years - including improvements to quality of service on Network South East and preparations for Channel Tunnel services. Substantial investment will be made in **London Underground**. This includes a project to enhance the Central Line at a cost of over £700 m up to 1996.

Plans for the Civil Aviation Authority reflect the acceleration of investment to enhance capacity of air traffic control, safeguarding standards of passenger safety.

OVERSEAS DEVELOPMENT ADMINISTRATION The net Aid Programme in 1989-90 is now set at £1.43 bn. Further increases represent growth of almost 18% in cash terms by 1991-92 over previously published plans for 1988-89. The increased provision will cover:

- full costs of UK's interest subsidy contribution to the IMF's Enhanced Structure Adjustment Facility

- expected costs of the Chancellor's sub-Saharan debt initiative
- increase in bilateral programmes

The high quality of UK aid is recognised internationally, with 82% of UK bilateral aid going to low income countries. Almost all new bilateral commitments are made as grants.

The UK is in the forefront of the sub-Saharan debt initiative. The UK has already written off loans to 14 African countries at a cost of almost £300 m. The UK is the first country to subscribe in full to the World Bank's General Capital Increase.

FOREIGN AND COMMONWEALTH OFFICE Spending on the Foreign Office will be increased by £24 m in 1989-90 taking the Departmental total to £770 m in 1989-90. The increase reflects the Government's commitment to represent effectively British interest abroad.

Extra resources will be provided to expand programmes such as The British Council, FCO scholarships, and sponsored visitors. Spending on these programmes will be increased by £13 m in 1989-90 and £15 m in 1990-91.

DEFENCE Spending on the defence programme will be increased by £175 m in 1989-90, and by £610 m in 1990-91. These increases in provision reflect the fact that the Government attaches high priority to defence and the maintenance of freedom. Between 1978-79 and 1985-86 spending on defence increased in real terms by 27%, reflecting commitment to NATO's 3% real growth target. Efficiency and value for money have been improved. The use of competition in defence equipment procurement is up from 30% of contracts by value in 1979-80 to 50% in 1987-88.

HOME OFFICE Provision for local authority expenditure, largely for the police, has been substantially increased - by £350 m in 1989-90. In addition an extra £160 m has been provided for a further expansion of the prison building programme, with a further £220 m in 1990-91. As a result between 1988-89 and 1991-92 an extra 3,000 places in new prisons and extra accommodation at existing prisons, will be provided.

Following these increases expenditure on law and order will have risen 71% in real terms between 1978-79 and 1991-92. This has allowed an increase in police manpower of 20,000 since 1979, of which 13,000 are extra officers.

EMPLOYMENT The substantial and welcome fall in unemployment has allowed significant reduction in planned expenditure. The new plans still include provision of £1.4 bn a year for the new Employment Training Programme, and around £1 bn a year for the Youth Training Scheme. New measures will achieve better targetting of help for the unemployed.

EDUCATION AND SCIENCE Total spending of about £19.6 bn is planned for 1989-90, most of it by local authorities. Since the beginning of the decade, the level of expenditure per school pupil has risen

by some 30% in real terms. The Government's education reforms will ensure that full value is obtained for this expenditure, and that standards will continue to rise. Participation in **higher education** will increase. The number of first Degrees awarded is now expected to be around 135,000 a year by 1990, more than 25% up on a decade earlier. Provision is made for an increase of 16% in the **science budget**, between 1988-89 and 1989-90, that is an extra £117 m in 1989-90 alone.

ARTS AND LIBRARIES The Government's policy of encouraging greater private sector sponsorship of the arts has achieved substantial results. To enable subsidised arts bodies to plan with confidence, and to encourage them to become more self-reliant for development and growth, a three year programme for the arts was announced in 1987. This covers most central government spending, and provided for a 17% increase to 1990-91. Last autumn provision was increased by a further £25 m (6%) between 1990-91 and 1991-92 to roll the programme forward into a new third year.

The total provision in 1989-90 represents a 25% increase in real terms since 1978-79.

ENERGY The plans for 1989-90 and 1990-91 reflect net reductions in the Energy nationalised industries' external finance requirement. The increase in 1991-92, reflects the privatisation of the electricity industry, which will result in the loss of substantial net repayments of external finance. The cash contribution lost will be over £1 bn.

TRADE AND INDUSTRY The Enterprise Initiative is projected to build up over time, expenditure reaching £160 m by 1991-92. The Department's plans also reflect the privatisation of British Steel and further privatisation of shipbuilding.

HOUSING As a deliberate result of Government policy, most investment in housing is undertaken by the private sector. Even so, provision for gross capital investment by the public sector has been sector at over £4 bn a year for England alone - an increase of nearly £450 m on previous plans for 1989-90 and £340 m for 1990-91. These plans include increased spending on new homes for rent by the Housing Corporation and on renovation by Local Authorities of their own stock through Estate Action.

£190 m has been allocated for Housing /Action Trusts (HATs) over the three survey years. HATs will improve rundown estates attracting private sector investment and diversifying the ownership and management of the estates.

1988 was the best year for house building since 1973. Total housing starts in Great Britain in 1988 were up 5% on last year, with private sector starts up 7% over the same period.

The 1988 Budget changes to the Business Expansion Scheme will encourage the development of the private rented sector.

EUROPEAN COMMUNITIES The projection of the UK's net payments to Community institutions has been increased by £500 m in 1989-90 as a result of the buoyancy of imports (which has led to an upwards revision of customs' duties payable to the Community), higher VAT payments, as well as the Brussels Agreement on the future financing of the Community.

The Fontainebleau mechanism has worked well, producing large abatements for the UK. The abatement being made in 1988 is £1,600 m, and by the end of 1988 the UK will have received abatements of around £4½ bn.

EXPORT CREDIT GUARANTEE DEPARTMENT The Department supports UK exports by providing credit insurance guarantees. Payments under these guarantees are not public expenditure. The changes to the public expenditure plans reflect the latest estimates of the cost of interest support on export finance loans and the tender to contract cover scheme.

LORD CHANCELLOR'S AND OTHER LEGAL DEPARTMENTS An increase in spending of £30 m in 1989-90 taking the Departmental total to £1,080 m in that year. This covers increased spending on Legal Aid, Court building, and handling of a growing volume of Court business. About 65 additional courtrooms will be built by 1991-92 in order to reduce waiting times.

MAFF Spending on agriculture is largely determined by the Common Agricultural Policy. The Government has sought to bring sense and financial discipline to the CAP, and has succeeded in securing savings through reform.

SCOTLAND, WALES AND NORTHERN IRELAND The net changes in these programmes compared with previous plans mainly reflect the changes in comparable programmes in England, through the block mechanism. PEWP describes Secretaries of State's allocation of expenditure between programmes within blocks.

CHANCELLOR'S DEPARTMENTS Inland Revenue provision has been increased to allow for the introduction of Independent Taxation, and for continued development of computer systems, to improve efficiency and customer service. The increase in Customs and Excise provision of £16 m is to meet higher forecast workload, including work to prevent drug trafficking, and subsume cumulative efficiency savings of about 2½% a year.

LOCAL AUTHORITIES Aggregate Exchequer Grant to local authorities for 1989-90 has been set at £17.4 bn. The plans for local authorities' current expenditure show increases of around £2 bn a year over previous plans, [largely as a result of authorities' overspending in 1988-89 which is rolled forward into the later year's figures.] These plans also reflect estimates of the costs of Housing Benefit, and take into account the proposed changes in benefit entitlement.

Local authority gross capital spending in GB is forecast to be £8.1 bn in 1988-89. After allowing for capital receipts, mainly from Right to Buy sales, the net cost of programmes is forecast to be £3.4 bn. Allocations of £135 m have been made to allow for the costs of implementing the Community Charge.

NATIONALISED INDUSTRIES Estimated outturn for nationalised industries external finance requirements for 1988-89 is £250 m, £440 m lower than the plans in the White Paper. This reflects better than expected performance by British Rail and British Steel. This is a massive reduction in the burden placed on the taxpayer by the nationalised industries, down from nearly £3 bn in 1978-79. These impressive improvements in performance are expected to continue, and in 1989-90 it is expected that the nationalised industries will generate a cash surplus. The privatisation of British Steel, the water industry, and the electricity supply industry acknowledge the improvement in performance. As a result of the loss of cash contribution of the electricity industry, total provision for external finance increases from £400 m in 1990-91 to £980 m in 1991-92 - an increase of nearly £1.4 bn.

The nationalised industries will undertake massive spending to improve the condition of the environment. Investment by the Water Authorities will be increased by £400 m in 1989-90, virtually all of which will be spent on anti-pollution measures. Over the next 4 years, they will spend £1.2 bn on improvements to sewage discharge. In addition, money is provided for improvements to the quality of our drinking water and the cleanliness of our beaches. The electricity industry has embarked on a £1.5 bn programme to reduce the emission of sulphur by power stations.

It will remain the Government's policy to strengthen the nationalised industries as businesses earning an adequate rate of return for the taxpayer.