RMA/CH/NL/0570
PART A

RMA/CH/NL/0570
PART.A

RMA/CH/NL/0570
PART.A

1989 BUDGET
PUBLIC EXPENDITURE.

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

DD's 85-15

ECONOMIC BRIEFING

eb.ph/Budg/r1.1a

A RECENT ECONOMIC DEVELOPMENTS

BRIEF A: UK ECONOMY: RECENT DEVELOPMENTS

(i) Inflation

- Rose from 3.7 per cent at end 1987 to 6.8 per cent at end 1988. Reached 8.3 per cent in May and June; latest figure 7.6 per cent in September.

- RPI excluding mortgage interest payments: rose from 4.0 per cent at end 1987 to 6.0 per cent in May 1989. Latest figure 5.8 per cent in September.

- GDP deflator: increased by 6.6 per cent in 1988 and 7.7 per cent in year to 1989H1.

(ii) GDP and components (1985 prices)

percentage change from previous period

	Recent figures		
	1989H1 on 1988H1	**1988 on 1987**	**1981H1 to 1989H1 average annual rate**
Consumers' expenditure	4¾	6¾	4
General government consumption	0	½	1
Fixed investment	5¾	13¼	6¼
Exports of goods and services	2¼	¾	3¾
Imports of goods and services	12¼	12¼	8
GDP(A)	2½	4¼	3¼

(iii) Industrial production: in three months to August 0.6 per cent higher than in previous three months but 0.6 per cent down on year earlier. Piper Alpha and other North Sea accidents estimated to have reduced annual growth rate by 2 percentage points. In 1988 as a whole 3.4 per cent higher than in 1987. [NB September figures for industrial production and manufacturing output to be released at 11.30 on Wednesday 15 November].

(iv) Manufacturing output: in three months to August 0.8 per cent higher than previous three months and 4.0 per cent higher than a year earlier. In 1988 6.8 per cent higher than in 1987. Manufacturing productivity up 4.2 per cent in year ending in the three months to August.

(v) Construction output: Unchanged between 1989Q1 and Q2, but 6 per cent higher than year earlier. Construction orders in 3 months to August down 6 per cent on previous three months and 2 per cent on year earlier.

(vi) Profits and profitability

- Industrial and commercial company (ICC) profits (excluding North Sea oil companies) fell 3.5 per cent between 1989Q2 and Q3 but were 20.5 per cent higher than year earlier. Profits grew by 21 per cent in 1988 and 18 per cent in 1987.

- For non-North Sea ICCs, profitability 10.1 per cent in 1988. Risen every year since 1981, now highest since 1968.

(vii) Fixed investment:

- Total investment in 1989H1 up 2½ per cent on 1988H2, following increase of 13 per cent in 1988.

- Manufacturing investment in 1989H1 6½ per cent up on 1988H2, following increase of 10¾ per cent in 1988.

  Business investment up 17½ per cent in 1988, to highest ever recorded level as share of GDP

(viii) Retail sales volume in 3 months to October 0.4 per cent down on previous three months, only 1.3 per cent higher than year earlier. This growth on year earlier is similar to that in August and September, but is otherwise the slowest annual rate of growth since June 1982.

(ix) Current account

- Deficit of £15.6 billion in first three quarters of 1989, following deficit of £14.6 billion in 1988.

- Non-oil export volumes of goods in 1989Q3 up 10¾ per cent on year earlier.

- Non-oil import volumes of goods in 1989Q3 up 8¾ per cent on year earlier.

(x) Employment up by 2¾ million since March 1983 to highest ever level. Rate of growth slowing, increase of 85,000 between March and June follows rise of 172,000 between January and March.

(xi) Unemployment level: 1,695,000 seasonally adjusted in September 1989 (6.0 per cent of workforce). Seasonally adjusted total fell 50,000 in September; over last 12 months fallen by 497,000. Fallen for thirty eight months in succession. Fallen in all regions over past year.

(xii) Underlying rate of increase in average earnings fallen from peak of 9½ per cent in March to 8¾ per cent in June, where it has remained since. The fall reflects slower earnings growth in the services sector. Higher settlement levels may mean that earnings growth will increase in the next few months.

(xiii) Unit wage and salary costs in manufacturing in three months to August up 4.6 per cent on year earlier. In whole economy risen 8.2 per cent in year to 1989Q2.

Evidence of consumer demand slowing down:

- Retail sales - volume fallen by 0.4 per cent between two latest three month periods. Up only 1.3 per cent on year earlier.

- CBI/FT survey: Consistent with retail sales figures. Balance of retailers in October indicating sales higher than year earlier well below average levels recorded in 1988 and the first half of 1989.

- EC/Gallup consumer confidence index fell to -27 in October, from -14 in September. The balance who think that now is a good time to make a major purchase also deteriorated sharply to -19 from -4 in September. Both indices are now at levels only previously recorded in the recessions of 1974/75 and 1980/81.

- Housing market: Prices falling or static, turnover significantly down on last year.

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13 November 1989

B. ECONOMIC PROSPECTS

Attached table summarises the IA forecast.

B
ECONOMIC
PROSPECTS

I. DEMAND AND ACTIVITY

(i) After rapid growth of more than 4 per cent in both 1987 and 1988, economy has slowed in 1989 in response to tight monetary policy: whole economy GDP forecast to rise by 2 per cent this year; non-oil GDP by 3 per cent. Most of the slowdown so far occurred in personal sector.

(ii) Whole economy GDP forecast to grow by 1¼ per cent in 1990; non-oil GDP by ¾ per cent. Slowdown in personal sector spending expected to continue. But companies also expected to adjust spending next year after expectionally strong growth in investment between 1986 and 1989.

(iii) Domestic demand growth forecast to slow to less than 4 per cent this year, and to be flat between 1989 and 1990.

Company sector

(iv) Total real business investment expected to increase by 9¼ per cent in 1989, following 30 per cent rise between 1986 and 1988. As a share of GDP this year it is likely to be highest ever.

(v) Net real rate of return of non-North Sea industrial and commercial companies rose further in 1988, to level not seen for twenty years. Profitability likely to remain at high levels in 1989.

Personal sector

(vi) Consumer spending rose 6¾ per cent in 1988. May have been associated with large increases in wealth, notably housing wealth; and partly financed by increased borrowing. But clear signs that consumer spending has

slowed through the year - and likely to continue to do so in 1990 - in response to higher interest rates.

(vii) Housing investment now weak and forecast to fall further in 1990.

(viii) Saving ratio likely to fall only slightly in 1989. Total national saving flat as share of GDP since 1986, as rising public sector saving offset falling private sector saving.

External Trade and Current Account

(ix) Volume of exports of manufactures in first three quarters of 1989 11 per cent up on year earlier; growth likely to remain strong in 1990. Growth of import volumes slowed in 1989 as demand and capacity pressures eased; and forecast to slow markedly in 1990.

(x) Current account forecast to be around £20 billion in 1989; forecast to fall to £15 billion in 1990. Oil and invisible surpluses both forecast to improve; non-oil trade expected to respond to forecast pause in domestic demand growth.

II. INFLATION

(i) Annual rate of RPI inflation rose to 8.3 per cent in early summer but fell to 7.6 per cent in September. Increase in RPI inflation over past eighteen months in large part result of changes in mortgage rates. RPI excluding mortgage interest payments has varied close to 5¾-6 per cent range for most of 1989.

(ii) RPI inflation likely to be 7½ per cent in 1989Q4, and to fall to 5¾ per cent by 1990Q4.

(iii) Underlying average earnings growth fell to 8¾ per cent in period June to August, mainly because of declining bonus payments in retail sector.

(iv) Pay settlements have picked up over past year as labour markets tightened and inflation risen.

III PRODUCTIVITY AND LABOUR MARKET

(i) Manufacturing output per head in three months to August up 4¼ per cent on a year earlier. Average annual growth of more than 4 per cent since 1979. Manufacturing output per head risen faster in UK in 1980s than any other major industrialised economy.

(ii) Employment continued to rise strongly over past year; in twelve months to June 1989 increased by over 470,000.

(iii) Unemployment (seasonally adjusted, adult) fallen for 38 months in succession, by almost 1½ million in total. Unemployment could level off in coming months; its behaviour depends on extent to which wage settlements moderate. Revised assumptions for public expenditure recently issued to Departments are for 1.75 million adult unemployment in GB in 1990-91 (September 1989 figure was 1.59 million).

IV OUTSIDE FORECASTS

Current average of outside forecasters' views for 1989 and 1990 are:

	1989	1990
GDP growth	2.1	2.1
Current account (£bn)	-17.4	-14.0
RPI inflation (Q4 on Q4)	6.9	5.4

Table 1 Economic prospects: summary

	Percentage changes on previous year unless otherwise stated			
		Forecast		Average errors from past forecasts[1]
	1988	1989	1990	
GDP and domestic demand at constant prices				
Domestic demand	7 ¼	3 ¾	0	1 ¼
of which:				
Consumers' expenditure	6 ¾	3 ¾	1 ¼	1 ¼
General government consumption	½	- ¼	¼	½
Fixed investment	13 ¼	5 ¼	1 ¾	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ¾	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ¼	3 ¼
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	7	4 ½	1 ½	2
Balance of payments current account (£ billion)	-14 ½	-20	-15	5 ¾
Inflation				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year)[2]	7	7	5	2
Money GDP at market prices (financial year)[2]	10 ¾	8 ½	6 ¾	2 ¼
£ billion	476	517	552	
PSDR (financial year)				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

[1] *The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the last ten years, and apply to the forecasts for 1990, except for the PSDR where it applies to the forecast for 1989-90.*

[2] *The introduction of the community charge in Scotland has reduced both the GDP deflator and money GDP by about ¼ per cent from 1989-90. There will be a larger reduction in 1990-91 following the introduction of the community charge in England and Wales, which is not allowed for in this table.*

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BRIEF C

CONFIDENTIAL

C. FISCAL PROSPECTS AND THE PSDR

C
FISCAL
PROSPECTS

Factual

a) **Changes to PSDR forecast for 1989-90 since Budget**

		£ billion
General government expenditure		+ 2.0
of which:	Planning total	+ 1.1
	Debt Interest	+ 0.7
	Other adjustments	+ 0.2
General government receipts		+ 0.5
of which	Taxes on income, expenditure and capital	+ 2.7
	NICs	-1.6
	Other	-0.5
PCMOD		+ 0.2
PSDR		- 1.2

Higher GGE due to higher planning total - mainly reflecting lower privatisation proceeds.

Higher receipts due to higher taxes as result of faster than expected growth of money GDP, partly offset by higher than expected rebates on national insurance contributions.

b) **Historical statistics on PSBR**

	PSBR		PSBR excluding Privatisation proceeds		PSFD (3)	
	Cash £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)
1969-70	- 0.6	- 1¼	- 0.6	- 1¼	- 0.8	- 1¾
1972-73	2.4	3½	2.4	3½	2.0	3
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1979-80	9.9	4¾	10.3	5	8.1	4
1986-87	3.4	1	7.8	2	8.3	2
1987-88	- 3.6	- ¾	1.6	½	1.9	½
1988-89	- 14.3	- 3	- 7.3	- 1½	- 7.6	- 1½
1989-90(i)	- 12.6	- 2½	- 8.3	- 1½	- 6.8	- 1¼
Average 1974-75 to 1978-79	8.2	6¾	8.3	6¾	7.3	5¾
Average 1979-80 to 1988-89	5.1	2	7.5	2¾	7.0	2½

(i) Autumn Statement forecast.

At 2½ per cent of GDP, expected to be second highest PSDR since beginning of 1950's when records started. (Highest ever surplus was last year)

Excluding privatisation proceeds, at 1½ per cent of GDP, expected to be highest since 1969-70.

c) **1989-90 PSBR Outturn to date** (monthly figures)
PSBR April - September £3 billion higher than in same period of 1988-89.

	April to September 1989-90	Outturn 1988-89	£ billion Difference
PSBR	- 0.5	- 3.6	+ 3.1
PSBR excluding privatisation proceeds	2.5	1.3	+ 1.1
CGBR (O)	- 0.5	- 3.2	+ 2.6
LABR	- 0.3	0.1	- 0.4
PCBR	0.4	- 0.5	+ 0.9

d) **Non-oil tax revenues** buoyant so far in 1989-90. Outturn figures for 6 months, April to September (latest available data):

	£ billion	% change on year earlier
Inland Revenue receipts	31.9	10½
Customs and Excise receipts	25.5	8

e) **Share of Non-North Sea Taxes and National Insurance Contributions in Non-North Sea GDP**

1988-89	1989-90 (Projection)
37.0	37.1

Forecast of Taxes and National Insurance Contributions in 1989-90

	1989 Budget forecast	1989 Autumn Statement	£ billion Difference
Income Tax	46.9	48.4	1.6
Corporation Tax	22.4	23.0	0.6
VAT	30.0	30.1	0.1
Petroleum revenue tax	1.4	1.2	- 0.2
Other Taxes	56.0	56.4	0.3
Total taxes (receipts)	156.7	159.1	2.3
Accruals adjustment to taxes	0.2	0.6	0.4
Total Taxes (accruals)	156.9	159.7	2.7
National Insurance Contributions	34.3	32.7	- 1.6

f) **International Comparisons**

General government financial deficits as percentage of GDP (deficit shown as a plus).

	1979	1988	1989
US(1)	- 0.5	2.0	2
Japan(1)	4.7	- 1.3	- 2
Germany(1)	2.6	2.0	½
France	0.8	1.3	1¼
Italy	10.1	10.1	10
Canada(1)	2.0	3.1	3½
UK(3)	3.2	- 0.8	- 1¼
G7	2.2	1.6	1¼
OECD(2)	2.2	1.7	1½

Source: OECD Economic Outlook, except UK which uses latest Treasury estimates/forecasts for financial years. OECD for G7 and OECD totals.

(1) As percentage of GNP

(2) Covers 18 of 24 members

(3) 1989 - Autumn Statement forecast

Positive

1. Excluding privatisation proceeds, PSDR in 1989-90 expected to be highest (both in cash terms and as per cent of GDP) since early 1950s, when records began.

2. First time since early 1950s that recorded a PSDR in three consecutive years.

3. As per cent of GDP, public sector debt fell by a quarter over two years to March, 1989.

4. No other major country except Japan has budget surplus.

Defensive

1. Forecast of 1989-90 tax revenues too low/over-cautious? No. Forecast best possible estimate. But still large margin of error at this time of year.

2. Why was £2 billion increase in estimate of cost of personal pensions rebates not foreseen at Budget time? Extent of take-up of personal pensions in response to NIC rebates (including incentives) difficult to forecast. (Expected ¾ million people to take out personal pensions in first year; outturn was over 3¼ million.)

D NATIONAL INSURANCE CONTRIBUTIONS

Factual

i. **Main announcements**

a. Class 1 rates for employed persons to remain unchanged.

b. Lower earnings limit up from £43 per week to £46. Upper earnings limit up from £325 per week to £350. Relationships between LEL, UEL and basic pension set by statute.

c. Limits for employers' reduced rate bands up from £75, £115 and £165 per week to £80, £125 and £175.

Positive

i. 1990-91 will be first full year of reformed system for employee contributions, introduced in October 1989. Almost 19 million employees now pay up to £3 per week less in contributions than under old system. 2 of 3 large jumps in contributions eliminated; initial step more than halved. Will reduce NIC income by £2.7 billion next year.

ii. Most employees will pay less as a result of further changes to take effect from April ie all 15 million employees with earnings below the former UEL (£325). The majority of these will pay £0.15 - -£0.20 per week less while some low-paid employees will pay up to a maximum of £1.13 per week less. No contracted - in employer will face increased contributions and contracted-out employers will pay no more than 11p per week extra.

iii. No increase in main class 1 contribution rates for the seventh year running.

Defensive

i. Will the NI Fund be in deficit next year because of personal pensions and the cuts in employee contributions?

Personal pensions and employee NIC reforms will have significant impact. Next months GAD report will give latest projections for 1989-90 and 1990-91. These show reduced but nevertheless large accumulated surpluses in the Fund.

ii. Costs of personal pension rebates and incentives. £2.6 billion in 1989-90; £2.0 billion in 1990-91 (receipts basis). Long-term effect will be a reduction in SERPS expenditure.

iii. Losers from UEL increase. Just over 3 million employees earning more than £350 per week (less than 12 per cent of workforce in employment). Maximum loss of £2.04 per week small in relation to average pay increase for this group. Extra contributions earn extra SERPS entitlement.

iv. Why not raise LEL by much more to take low-paid employees out of NICs? Would affect pension and other benefit entitlement of such employees. Low - paid benefited most from 1985 and this year's NIC reforms.

D
NATIONAL INSURANCE CONTRIBUTIONS

ANNEX

NATIONAL INSURANCE CONTRIBUTION RATES 1990-91

Summary of proposals

	Present 1989-90	Proposed 1990-91	Change
Employer's Class 1 (main rate) (contracted in)	10.45%	10.45%	-
Employee's Class 1 (main rate on earnings between LEL and UEL) (contracted in)	9%	9%	-
Opted-out married women	3.85%	3.85%	-
Lower earnings limit (Class 1)	£43	£46	+£3
Upper Earnings limit (Class 1)	£325	£350	+£25
Low-paid earnings brackets for employers	£75 £115 £165	£80 £125 £175	+£5 +£10 +£10
Rates payable by employers within low paid brackets	5% 7% 9%	5% 7% 9%	- - -
Class 2 (self-employed)	£4.25	£4.55	+30p
Small earnings exception	£2,350	£2,600	+£250
Class 3 (voluntary)	£4.15	£4.45	+30p
Class 4 (self-employed profits related)	6.3%	6.3%	-
Lower profits limit (Class 4)	£5,050	£5,450	+£400
Upper profits limit	£16,900	£18,200	+£1,300

Note: Contracting out rebates remain at 3.8 per cent for the employer and 2 per cent for the employee.

BRIEF E: INTERNATIONAL COMPARISONS

1. GDP/GNP Growth

- Growth in UK expected to be below G7 and EC averages in 1989 and 1990, after three years of above average growth.

Real GDP/GNP growth (percentage change from year earlier)

	1987	1988	1989 (estimate)	1990 (forecast)
United Kingdom	**4.5**	**4.3**	**2.0**	**1¼**
United States	3.7	4.4	3.1	2.1
Japan	4.5	5.8	5.0	4.7
Germany	1.7	3.6	4.1	3.0
France	1.9	3.4	3.3	3.0
Italy	3.0	3.9	3.2	2.9
Canada	4.5	5.0	2.7	2.0
Major 7	3.4	4.4	3.5	3.0
EC	2.7	3.5	3.4	3.1

Source: OECD, CSO and national sources. Forecast figures from IMF, except UK (Autumn Statement) and EC (European Commission).

2. Inflation

- UK headline inflation rate highest among G7 countries, but lower than Italy when mortgage interest payments excluded.

Consumer price inflation (percentage change on year earlier)

	1987	1988	1989 latest headline figure	Forecasts 1989 Q4 (forecast)	1990 Q4 (forecast)
United Kingdom	**4.2**	**4.9**	**7.6 (Sept)**	**7½**	**5¾**
United States	3.6	4.1	4.4 (Sept)	5.3	4.9
Japan	0.1	0.7	2.6 (Sept)	2.4	1.2
Germany	0.2	1.2	3.1 (Sept)	3.2	2.8
France	3.1	2.6	3.4 (Sept)	3.5	2.7
Italy	4.6	5.0	6.6 (Sept)	6.6	4.7
Canada	4.4	4.0	5.2 (Sept)	6.0	4.1
Major 7	2.8	3.2	4.3 (Sept)	4.5	3.5
EC	3.1	3.3	4.9 (Aug)	4.9	3.5

	1989 latest more comparable series	
United Kingdom	**5.8**	**(Sept)**
United States	4.7	(Aug)
Japan	3.0	(Jun)
Germany	3.1	(Sept)
France	3.4	(Sept)
Italy	6.6	(Sept)
Canada	4.9	(Aug)
Major 7	not av	
EC	not av	

Source: OECD. IMF Forecasts except UK (Autumn Statement, total RPI).

3. Productivity Growth

UK manufacturing productivity growth highest among G7 countries, second only to Japan on whole economy basis, since 1980.

	Manufacturing 1980-1988	Whole economy 1980-1988
United Kingdom	**5.3**	**2.7**
United States	4.1	1.3
Japan	3.1	2.9
Germany	2.2	1.2
France	3.1	2.0
Italy	3.8	2.0
Canada	3.6	1.6
Major 7	3.6	1.8

Source: OECD, IMF, CSO.

4. Current Account and Overseas Assets

- UK deficit in 1989 likely to be almost 4 per cent of GDP, but overseas assets position remains strong.

- Net overseas assets of UK highest of G7 countries as proportion of GDP.

Current account balances ($ billion, per cent of GDP in brackets)

	1986		1987		1988		1989H1 (annual rate)	
United Kingdom	**0**	**(0)**	**-6**	**(-1)**	**-26**	**(-3¼)**	**-33**	**(-4)**
United States	-133	(-3)	-143	(-3¼)	-127	(-2½)	-123	(-2½)
Japan	86	(4½)	87	(3½)	80	(2¾)	67	(2¼)
Germany	39	(4½)	45	(4)	49	(4)	59	(5)
France	3	(½)	-4	(- ½)	-4	(- ½)	not av	
Italy	3	(½)	-2	(- ¼)	-5	(- ¾)	not av	
Canada	-8	(- ¼)	-7	(-2)	-8	(-2)	not av	

Source: IMF, OECD, CSO

Net overseas assets and reserves

	Net stock of overseas assets at end-1987		Foreign Exchange Reserves (minus gold) end 1988	
	$ billion	(% of GNP)	$ billion	(% of 1988 Imports)
UK	**170***	**(21)**	**44**	**(23)**
US	-533*	(-11)	37	(8)
Japan	240	(10)	97	(52)
Germany	160	(14)	59	(23)
France	-3	(0)	25	(14)
Italy	-34	(-5)	35	(25)
Canada	-149	(-37)	15	(13)

Source: IMF, OECD and national sources

* end 1988

5. Interest rates

- Short term interest rates have risen in all G7 countries except the US since a year ago. Increase in UK less than that in Germany.

Short-term interest rates (annual average rates, per cent)

	1988	November 1988	June 1989	Latest (10 Nov. 1989)
Nominal*				
UK	**10.3**	**12.3**	**14.1**	**15.0**
US	7.7	8.8	9.2	8.4
Japan	4.5	4.4	5.4	6.8
Germany	4.3	4.9	7.0	8.3
France	7.9	8.1	9.0	10.3
Italy	10.9	11.2	12.6	12.9
Canada	9.5	10.8	12.3	12.3
G7 Average	7.3	8.0	9.0	9.3
Real**				
UK	**5.2**	**5.5**	**5.4**	**6.9**
US	3.5	4.4	3.8	3.9
Japan	3.8	3.2	2.3	4.1
Germany	3.1	3.3	3.7	5.0
France	5.2	5.0	5.2	6.7
Italy	5.6	5.6	5.3	5.7
Canada	5.3	6.4	6.5	6.7
G7 Average	4.0	4.4	3.8	4.8

* Three month money market rates

** Nominal rates deflated by 12 month change in consumer price index.

- Only small rise in long rates, suggesting stable medium term inflationary expectations

Long-term interest rates - 10 Year Bond Yields

	1988	November 1988	June 1989	Latest (6 Nov. 1989)
UK	9.7	9.8	10.6	10.5
US	9.0	9.1	8.4	8.1
Japan	5.0	4.8	5.3	5.6
Germany	6.5	6.4	6.8	7.3
France	9.1	8.8	8.7	9.1
Italy	10.5	10.7	11.5	12.1
Canada	10.0	10.2	9.6	9.7

IF2 Division
3rd November 1989

A1 STRATEGY AND MAIN ISSUES

Factual

(i) Overall objective of economic policy to create conditions for sustained economic growth through:-

- firm financial policies designed to bear down on inflation.
- supply-side policies to improve economic performance through creating an environment which encourages and rewards enterprise and initiative.

(ii) Main priority is progressively to reduce inflation and bring economy back to a path of steady growth.

(iii) Using all practical levers to this end Monetary policy is key lever against inflation, and will be kept as tight as necessary. It is supported by fiscal policy which is and will remain very tight.

(iv) No change in monetary policy Essential instrument is interest rates, which will be kept as high as necessary for as long as necessary in order to reduce inflation, with decisions guided by a range of monetary indicators including growth of MO in relation to target range, and exchange rate.

(v) Firm exchange rate is needed to defeat inflation, since a fall in exchange rate directly raises prices and reduces the discipline on UK industry. Some movement in exchange rate bound to happen, but Government does not intend to allow depreciation to undermine fight against inflation.

(vi) Fiscal policy Set at Budget time. Fiscal stance is very tight, and will remain tight.

(vii) Fiscal prospects Now forecasting PSDR for 1989-90 of £12.6 billion - £1.2 billion lower than in FSBR forecast. Would be slightly smaller surplus than in 1988-89, but still second largest on record. Excluding privatisation proceeds, projected surplus in 1989-90 (£8.3 billion) larger than in 1988-89 (£7.3 billion) and largest on record.

(viii) Public Expenditure Policy unchanged. Plans maintain downward trend over time in ratio of public spending to GDP while value for money is constantly improved.

(ix) Public Expenditure Plans

- General government expenditure (GGE), excluding privatisation proceeds, expected to be 38¾ per cent of GDP in 1989-90 - lower than 39¼ per cent previously forecast. Down from 46¾ per cent in 1982-83.
- Some increase in GGE/GDP* ratio expected in 1990-91, from unexpectedly low figure this year. But downward trend in ratio expected to continue over time.

STRATEGY AND MAIN ISSUES

- GGE/GDP ratio for 1990-91* (39 per cent) and 1991-92 (38¾ per cent), as in 1988 Autumn Statement.

- By 1992-93, GGE/GDP ratio* should decline to 38½ per cent, lowest level since 1965-66.

- Average growth rate in GGE in real terms 1¾ per cent from 1988-89 to 1992-93, same as average growth rate from 1988-89 to 1991-92 in 1988 Autumn Statement.

- Outturn in 1989-90 is £1.1 billion over plan, (old definition of planning total) but more than accounted for by local authorities (£2¾ billion), and privatisation proceeds (£¾ billion).

(* GGE/GDP ratios for 1990-91 and thereafter take no account of effect on recorded GDP of introduction of community charge in England and Wales. See Brief C1, factual (xii).)

(x) Spending in Priority Areas

- Substantial real growth in spending in priority programmes over past five years made possible by declining requirements elsewhere, greater efficiency and falling debt interest burden.

- New plans show further real growth in spending on priority programmes. Extra money for NHS, roads, rail, homelessness, disabled, higher education.

(xi) Industry Act Forecast

- Demand growing at unsustainably high rate through 1987 and 1988. Following policy tightening, has slowed in 1989. Forecast to slow further in 1990.

- GDP growth projected to fall from 4½ per cent in 1988 to 2 per cent in 1989. Forecast to slow further to 1¼ per cent in 1990.

- Current account deficit now forecast at £20 billion for 1989. Reduction to £15 billion forecast for 1990, as demand slows.

- RPI inflation peaked in May at 8.3 per cent. Forecast at 7½ per cent in 1989Q4. Reduction to 5¾ per cent forecast for 1990Q4, as inflationary pressures ease.

(xii) Autumn Statement and MTFS

Money GDP path in Autumn Statement is higher than in 1989 MTFS. Reflects higher GDP deflators.

	Percentage growth on previous financial year				
	1988-89	1989-90	1990-91	1991-92	1992-93
Money GDP*					
FSBR	11	7¾	6	6	5½
Autumn Statement	10¾	8½	7	6¼	5¾

(*Autumn Statement figures for money GDP in 1989-90 are reduced by about ¼ per cent by introduction of community charge in Scotland. Thus overshoot on MTFS for 1989-90 is actually larger than shown here. Projections for 1990-91 onwards do not take account effect of effect of introduction of community charge in England and Wales. See brief C1, factual (xii).)

(xiii) National Insurance Contributions

- no change in main Class 1 contribution rates.

- lower earnings limit (LEL) and upper earnings limit (UEL) both raised, consistent with statutory link set between LEL, UEL and basic pension.

Defensive

Monetary and Fiscal Policy

(i) If inflation so important, why was it allowed to rise in first place? Re-emergence of inflationary pressures the result of two years of exceptional growth in demand on scale which no-one expected. Pressures evident both in rising domestic prices and in deterioration of current account. Rise in inflation over past two years a worldwide phenomenon - not just in UK.

(ii) Rise in inflation result of lax monetary policy? With benefit of hindsight, accept that policy too loose at end 1987 and beginning of 1988. Represented authorities response to stock market crash, when policy relaxed - both in UK and abroad - in order to avoid threat of major collapse of confidence. On balance of risks as then appeared, was right to relax policy.

(iii) If policy is firm exchange rate, why has it been allowed to go down? Bound to be some movement in exchange rates, but £ still around same level as it was in 1987 and above level of three years ago [average rate in 1987: 90.1 ERI, DM 2.94, $1.64. Rate in 1986Q4 - low point, and three years ago - 85.1 ERI, DM 2.87, $1.43]. Tight budgetary and monetary policies designed to keep exchange rate firm.

(iv) Should join ERM to stabilise exchange rate? Joining ERM not a panacea. Would still need to use interest rates to control inflation. Government has made it clear that will join ERM as part of Stage One of Delors prescription for EMU, which has been agreed.

(v) Interest rates not enough - need more policy instruments? Government is using all practical levers at its disposal to bear down on inflation. One of these is fiscal policy. Fiscal stance is tight, and will remain tight. Credit controls would be ineffective in today's sophisticated financial markets and unfair.

(vi) Should announce now that there will be no tax cuts in next Budget? Decisions on taxation are always announced in annual Budget; no reason to depart from this practice. Fiscal stance is at present very tight; PSDR of 2½ per cent of GDP forecast for 1989-90.

(vii) Mini-Budget needed for take strain off interest rates? Tight monetary policy (keeping interest rates at right level) is key instrument in bringing inflation down. Supported by very tight fiscal policy which will be maintained. No need for panic measures.

(viii) Money GDP growth overshooting MTFS again? Government has demonstrated willingness to set interest rates at whatever levels required to defeat inflation. Raising of interest rates is MTFS in action. But demand earlier in 1989 still stronger than anyone expected. Some overrun in money GDP inevitable.

Public expenditure

(ix) Ratio of General Government Expenditure (excluding privatisation proceeds) to GDP to rise in 1990-91 - now abandoned policy of reducing public spending as proportion of national income? Plans provide for ratios for 1990-91 and 1991-92 unchanged from 1988 Autumn Statement. All that has changed is unexpectedly low projected outcome for 1989-90. Ratio for 1992-93 below 1989-90, and lowest since 1965-66.

(x) Large additions to spending plans show previous plans wishful thinking? Government has held to same GGE/GDP ratios as in last year's Autumn Statement, and is maintaining downward trend in ratio over time. Average real growth in spending of 1¾ per cent per annum from 1988-89 to 1992-93 is same as envisaged for 1988-89 to 1991-92 in 1988 Autumn Statement.

(xi) Growth of new planning total 1989-90 to 1990-91 (5½ per cent) shows spending out of control? Largely reflects introduction of new system of local government finance in 1990-91. Huge swing from LA spending outside new planning total in 1989-90 to CG support for LAs, which is within it. (4½ per cent real increase in latter). Central Government's own spending shows real growth of 3¾ per cent, reflecting substantial real increases in priority programmes. Affordable within even lower growth in GGE, because of declining debt interest.

(xii) How much added to public expenditure? Projected level of GGE in 1990-91 £5½ billion higher than in 1988 Autumn Statement. Comparisons with planning totals in previous plans not possible because of change in definition. Previous plans did not include forward figures for some key elements in new planning total such as grants to local authorities.

(xiii) Overspend in 1989-90 shows public expenditure out of control? Central government expenditure well under control. Excess of £1.1 billion more than accounted for by local authorities (£2¾ billion, of which £1.6 billion capital). Reform of local government finance should put that right for future. GGE ratio in 1989-90 actually ½ per cent lower than projected in 1988 Autumn Statement.

Industry Act Forecast

(xiv) Economic outlook worst for many years? Inflation coming down. Outlook is necessary preliminary to resumption of steady, sustainable growth. Rate of expansion in 1987 and 1988 unsustainable; now need pause for breath. Looked at over a run of years, forecast represents satisfactory medium term growth performance, in line with earlier MTFS assumptions [eg 1987 MTFS envisaged 10½ per cent growth over four years to 1990; if forecast right, outcome will be 12½ per cent growth].

(xv) Deterioration in outlook since Budget? Domestic demand and inflationary pressures proved stronger than expected at Budget time. Required further policy tightening; thus prospect is for more pronounced slowdown in output growth. Reflection of Government's determination not to accommodate inflationary pressures.

(xvi) Government policies bringing about recession? Not expecting output to fall. Forecast for 1990 is for year of slow growth. Whether or not output actually falls not something which Government can itself control. Depends on private sector behaviour, especially in labour market. Government's supply side reforms have greatly improved flexibility and dynamism of economy; should ease adjustment process.

(xvii) Still under estimating buoyancy of domestic demand/inflation/current account? Forecasts wishful thinking? Forecasts are central. But substantial uncertainties around forecasts - have always emphasised margins of error. Will be errors - but wrong to assume that will necessarily be in same direction as in recent past. Just as underestimated speed of upturn, by no means impossible that might underestimate speed of downturn too. Forecasts certainly not over-optimistic when compared with those of other forecasters. (For details of outside forecasts, see B1, Annex, Table 3.)

(xviii) Little evidence that domestic demand slowing down? Clear evidence that consumer spending has slowed down; retail sales virtually flat Housing market has cooled off markedly. Company spending takes longer to respond to policy tightening, but unmistakeable evidence of slowdown in recent intentions surveys (eg CBI quarterly trends survey).

(xix) High interest rates for a year now, but no real progress in reducing inflation? Inflationary pressures will take time to subside. Clears signs that policy is working. Demand growth has fallen off. Underlying inflation has stabilised.

(xx) Current account deficit serious problem? Deficit certainly sign that economy has been overheating. Policies tightened sharply to deal with it; clearly being successful in reducing demand pressures. Not like 60s and 70s current account deficits which were counterpart of large public sector deficits. Rather result of private sector moving into deficit - which is unprecedented since early 1950s. Unlikely that private sector will stay in deficit for any length of time, though timing of return to surplus very uncertain. With firm policies in place, and plentiful investment opportunities in UK, financing of deficit should not be major cause for concern.

(xxi) Is forecast of current account over-optmistic? Forecasting reduction between 1989 and 1990 equivalent to just over 1 per cent of GDP. Have had year-to-year improvements larger than this on number of occasions in past; eg 1968-9 (1.6 per cent), 1974-5 (2.4 per cent). [NB early 1980s not good example because of oil build-up.]

(xxii) Current account deficit a structural problem? Reflects run-down of manufacturing industry? Rise in manufacturing trade deficit reflects very strong growth in domestic demand, which sucked in imports. But only one quarter of manufactured imports are consumer goods; three quarters are for production and investment. Thus large part of deficit reflection of strength and confidence of UK manufacturing industry, which has seen very rapid rise in investment over past two years. Will help to reduce deficit in future, as new capacity comes on stream.

(xxiii) Forecast shows no fall in underlying inflation over next year? Forecast fall in RPI merely reflects mortgage rate effects? Forecast does show some reduction in inflationary pressures over next year. Those prices which are 'market-determined' are expected to moderate. Producer output prices forecast to be rising by only 4 per cent by 1990 Q4, as compared with 5½ per cent in 1989 Q4. Inflation rate for 'other' retail prices [ie retail prices other than food, nationalised industries, housing] forecast to fall to 4¾ per cent in 1990 Q4 as compared with 5 per cent in 1989 Q4. Food price inflation also expected to moderate from current high rate. [Inflation rate for all items RPI higher because of forecast increases in those categories where prices are largely administered - housing and nationalised industry prices.]

(xxiv) Why is Government pushing up public sector administered prices [Nationalised Industry prices; housing - through rents, community charge], when policy objective to get inflation down? Nationalised Industry prices rises reflect need to reduce subsidies or to earn rate of return closer to private sector's; this will also help to finance substantial investment programmes. No reason why consumers should not contribute to costs of improvement in railways in South-East or in water quality which they benefit from. Community charge a matter for local authorities, not central government.

(xxv) What does forecast assume about mortgage rates/community charge? Not our practice to give more detailed forecasts than shown.

(xxvi) Unemployment to rise? Not practice of this or previous Governments to give forecast for unemployment. With slow-down in output growth, fall in unemployment could level off in coming months.

Contact point: Allen Ritchie (EB) 270 4549

wpu.

PES BRIEFING

gep1.ip/jm/cst 9.11b

FROM: J MACAUSLAN
DATE: 9 NOVEMBER 1989
EXTN: 4780

CHIEF SECRETARY

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Edwards (LG)
Mrs Lomax
Mr Luce
Mr Riley
Mr Ritchie
Miss Walker
Mr Tyrie
Mrs Chaplin

BRIEFING FOR CABINET ON 15 NOVEMBER: PUBLIC EXPENDITURE

I attach some briefing for the public expenditure Cabinet on 15 November.

2. It covers the main individual settlements. These briefs have been provided by divisions. It also includes summary briefs on science and technology, running costs, local authority current and capital, and the nationalised industries. And there are some tables, showing

A results of 1988 Survey

B1 main bids by department

B2 the breakdown of the £4-5 billion to which we were already committed

B3 settlements as a percentage of bids (a rather encouraging table!)

3. We have considered giving you further briefing on public expenditure policy, the Survey outcome, public spending trends, the new planning total, capital investment etc. But those are all covered in the Autumn Statement briefing (submitted separately today). It seemed best not to duplicate the material. But we will provide extra briefing if you want.

4. We intend to supplement this package of briefing for Cabinet with a further short brief on total local authority expenditure projections. We will also submit a speaking note for you to use (Chris Riley will submit a speaking note for the Chancellor covering public expenditure totals as well as economic prospects).

5. Last year the Chancellor handed round to Cabinet colleagues a sheet of paper showing new public spending totals and public expenditure trends. If you or he wanted to do the same thing this year, I would have thought that something like Table B attached to Rachel Lomax' submission to you of yesterday on the final Survey figures would be appropriate. You could either hand round the table as it stands, or use a slightly simplified version (for instance merging debt interest and national accounts adjustments).

JM

J MACAUSLAN

PS None of the points headed "points for Cabinet discussion" is for use unless raised by colleagues.

gep1.ip/jm/index

BRIEFING FOR CABINET ON 15 NOVEMBER **INDEX**

Brief Number

A	1988 Survey outcome	
B	Bids, commitments and settlements	
C	1989-90 outturn	
D	Running costs	
E	Science and technology	
F	Local authority current	
G	Local authority capital	
H	Total local authority expenditure	[to come]
I	Survey settlements	

1 Defence
2 FCO
3 ODA
4 MAFF
5 DTI
6 DEn
7 DE
8 DTp
9 DOE - housing
10 DOE - OES
11 HO
12 DES
13 OAL
14 DH
15 DSS
16 Scotland
17 Wales
18 Northern Ireland
19 Revenue and Customs
20 Nationalised industries
21 Privatisation proceeds

SECRET

A

TABLE A RESULTS OF 1988 SURVEY

1988 SURVEY

(£ billion)

June			
Bids	+9	+12	+16
November			
Bids	11¾	15½	20½
Outcome on bids	8¾	11¼	15½
Other savings	-4¾	-4½	-4¼
of which			
Unemployment	-1½	-1¾	-1¾
Receipts	-2	-1½	-1½
IBAP	-½	-½	-¼
Nat ind improved trading	-½	-¾	-1
Actual outcome on programmes	+3½	+6¾	+11¼

July 1989

B1

TABLE B1 MAIN BIDS BY DEPARTMENT

SECRET

TOTAL BIDS

(£m)	1990-91	1991-92	1992-93
MOD	380	960	2010
ODA	140	220	340
DE	140	170	250
DTp	620	1010	1370
DOE - housing	1010	1230	1310
DOE-OES	410	430	340
HO	620	870	1020
Legal	140	210	310
DES	1470	1800	2000
DH	1880	2740	3730
DSS	900	2490	5000
Territorial consequences	1180	1580	1920
RSG/NNDR	850	900	780
Nationalised industries	2060	1540	2080
TOTAL (£ billion)	13	17	23½

[Excludes bids for transitional relief for community charge]

SECRET

B2

TABLE B2 BREAKDOWN OF £4-5 bn.

1989 SURVEY: COMMITMENTS ETC

Committed

Student loans/awards	150	230	250
Poorer pensioners	200	200	200
Pensioners earnings	375	400	400
Other	325	370	300
	1050	**1200**	**1150**
AEF (incl police pay) (GB)	**1250**	**1400**	**1450**

Demand led/estimating

Students loans/awards	85	110	105
Health review bodies	170	175	175
Social Security uprating etc	550	1000	1325
Other	200	75	1800
	1000	**1350**	**3400**

Costs of agreed policies

Extension of VAT	150	215	180
Restructuring	275	250	250
HRA (offset within GGE)	370	370	370
~~Loss of Electricity EFL~~	~~500~~		
	~~**1300**~~ 800	**850**	**800**
TOTAL COMMITMENTS ETC (incl estimated territorial consequences) (£bn)	4- 5	5¼	7

September 1989

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B3

TABLE B3 SETTLEMENTS AS % OF BIDS

1989 SURVEY: SETTLEMENTS AS % OF BIDS: MAIN DEPARTMENTS

	1990-91	1991-92	1992-93
	(%)		
MOD	0	22	37
ODA	59	53	43
DTp	69	52	40
Housing	62	47	41
OES	57	37	47
HO	52	48	43
DES	52	46	42
DH	63	56	57
DSS	44	66	78
Nat inds	82	54	51

Memo

	(£ million)		
DE bid for	141	169	253
settled at	-97	-215	-274
DTI bid for	18	52	-25
settled at	-50	-35	-148

8 November 1989

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C

PUBLIC EXPENDITURE 1989-90

A. NEW PLANNING TOTAL BASIS

(i) estimated outturn £161.7 billion;

(ii) No plans for 1989-90 on new planning total basis. Plans therefore monitored on same basis on which they were set ie. old planning total basis.

1989-90 OUTTURN

(iii) difference from old planning total (-£6.5 billion) reflects replacement of LA expenditure by finance for LA expenditure provided by central government, partly offset by effect of classification changes (eg. the change in treatment of SSP and SMP).

B. OLD PLANNING TOTAL BASIS

£ billion	1989 PEWP	Autumn Statement forecast outturn
Planning total	**167.1**	**168.2**
Privatisation proceeds	-5.0	-4.2
Planning total (excl. p.p)	172.1	172.4
Debt interest	17.0	17.8
Other national accounts adjustments	9.5	10.3
Total GGE (excl. p.p)	**198.7**	**200.5**

(i) estimated outturn represents overspend of £1.1 billion on 1989 PEWP plans. Excluding privatisation proceeds, an overspend of £0.4 billion;

(ii) overspend mainly due to local authority overspending (£2¾ billion), shortfall in privatisation proceeds (£¾ billion) and public corporations (£¾ billion). Government introducing new arrangements for financing and control of local authority expenditure from April 1990 to combat overspending. Central government spending firmly under control.

(iii) GGE (excluding privatisation proceeds) as percentage of GDP estimated 38¾ per cent in 1989-90. Lower than 39¼ per cent forecast in PEWP and outturn in 1988-89: 39 per cent (¾ per cent lower than estimated in 1989 PEWP). At lowest level since 1966-67.

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D

BACKGROUND BRIEFING FOR AUTUMN STATEMENT CABINET: RUNNING COSTS

Survey outcome

- The gross running costs of the Civil Service will increase by £1344 million (9.56 per cent) in 1990-91 over current provision - ie from £14 billion to £15.4 billion. This represents a 4.3 per cent increase in real terms.

- Increases for 1991-92 and 1992-93 are £798 million (5.18 per cent) and £707 million (4.36 per cent) respectively, about 1.5 per cent above forecast inflation.

RUNNING COSTS

- Civil Service manpower will remain below 600,000 across Survey period. (Plan about 585,000. Actual probably lower).

Cabinet objectives

Objectives set in July have been met:

(i) Bids of 11½% for 1990-91 reduced to under 10%.

(ii) Extra cost improvements achieved, averaging above 2 per cent a year and with some large executive operations exceeding 3 per cent a year (DSS, C&E, IR). Pressures from past pay settlements absorbed.

New high priority policy areas accommodated, eg:

(a) expanded road programme (DTp);

(b) independent taxation (IR);

(c) anti-drugs effort and Channel Tunnel controls (C&E);

(d) accelerated computerisation and new disability policy (DSS);

(e) additional environmental work and planning appeals (DOE);

(f) new visa work (FCO)

Ministerial response

None expected to attack specific settlement, because most key priority policies accommodated.

Why as high as 9½% for 1990-91?

Cost pressures of about 10% (mainly future pay settlements), plus expansion plans of some 2%, offset by planned efficiency gains of 2½%.

High settlements (1990-91 increase)

LCD	16.8%	Specialist pay pressures and rising workload
DTI	13.7%	Running cost settlement bargained for very advantageous PES outcome.
C&E	13.1%	Single Market Channel Tunnel and drugs
DSS	12.9%	accelerated computerisation
DTp	12.3%	expanded road programme.

Low settlements (1990-91 increase)

D Empl	6%
S.O	6.6%
D.H	7.4%

Energy
NI
MOD
} 7.7%

Chancellors Departments

Running costs increase in 1990-91 (excluding the CSO) is 9½ per cent, dead on the average - despite the additional priority work accommodated as above.

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E

SCIENCE AND TECHNOLOGY

	£ million		
	1990-91	1991-92	1992-93
Bids - civil S&T	253	329	321
Outcome - civil S&T	110	145	58

Main Changes

The settlements allow for an 8 per cent increase in the DES Science Budget between 1989-90 and 1990-91, with offsetting reductions to near market spending by DTI and Department of Energy.

Sensitive Policy Points

SCIENCE & TECHNOLOGY

The revised plans will show planned spending on science and technology falling in real terms in each of the Survey years. However, excluding launch aid, and adjusting for the 80 per cent discount in universities' rates introduced next year, funding of S&T is expected to increase by 7 per cent in 1990-91. The plans for 1991-92 and 1992-93 will be considered again in next year's Survey.

Points for Cabinet Discussion (if raised)

(i) the DES science budget for 1990-91 will be 25 per cent (cash) higher than in 1988-89;

(ii) room has been made for Department of Environment to fund a Climate Change Centre; for DTI and DES to fund the UK's contribution to the Earth Remote Sensing Satellite II; and to allow ODA to promote initiatives in developing countries which will enhance the global climate, in particular forestry conservation;

(iii) the withdrawal from funding near-market agricultural work will be complete by 1991-92;

(iv) Cabinet Office report shows declining spend on S&T. The figures in the Cabinet Office report relate to the programme which emerged from the 1988 Survey. They take no account of the increases that have just been agreed this year.

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F

LOCAL AUTHORITY CURRENT AND THE COMMUNITY CHARGE

Aggregate External Finance (AEF) Settlement

	1989-90 (adjusted functions)	1990-91 Survey baseline	1990-91	1991-92	1992-93
England	21.3	22.0	23.1	24.3	24.7
Wales	1.6	1.6	1.7	1.8	1.8
Scotland*	3.8	3.8	4.0	4.1	4.2
GB Total	**26.7**	**27.5**	**28.8**	**30.1**	**30.8**

*Aggregate Exchequer Grant (AEG) plus Non-Domestic Rates.

LOCAL AUTHORITY CURRENT

Main Changes

(a) AEF (comprising Revenue Support Grant, Non-Domestic rates, and certain specific grants) is the envelope of support for local authority spending also financed by the community charge. It shows an increase of more than £2 billion (7.9 per cent) over the equivalent 1989-90 figure. If local authorities spend in line with government guidelines, community charges should average about £278 in England, £175 in Wales and £285 in Scotland.

(b) AEF for 1990-91 uprated by GDP deflator forms starting point for AEF for 1991-92 which includes in addition extra resources (£400 million) for Exchequer funding of area safety net in England. AEF for 1992-93 calculated by uprating 1991-92 figure by GDP deflator, and adjusting for transitional grants, where profile decided separately.

(c) Series of Transitional Grants to phase in new community charge system:

(a) ILEA transition grant to help Inner London boroughs taking on education responsibility for first time;

(b) low rateable value areas grant, for authorities with low average rateable values in 1989-90;

(c) area protection grant, replacing area safety net from April 1991;

(d) Scottish area protection grant;

(e) community charge transitional relief, for former ratepayers in England facing largest increases, (parallel schemes for Scotland and Wales).

Costs

£ million

	1990-91	**1991-92**	**1992-93**
ILEA transition grant*	100	70	50
Low rateable value areas grant*	87)		
Area protection grant*	)	475	275
Scottish area protection grant	30	15	8
CC Transitional relief	449	276	212
Total	**666**	**836**	**544**

* Within AEF totals above

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Sensitive Policy Points

The original announcements on the local authority current settlement in July prompted a good deal of criticism, focusing largely on the proposed four year area safety net in England. Mr Hunt announced on 11 October that the safety net would be abolished from April 1991, with the Exchequer paying for protection for losing areas, and that the new community charge transitional relief would protect against substantial losses at household level. This seems to have met the demands for change.

Points for Cabinet Discussion

If any colleague asks what level of community charge is implied by the projection of total local authority expenditure within GGE, we suggest you say that the projection has not been constructed on the basis of any particular community charge. It is based instead on past trends in total local authority expenditure (taking current, capital, and debt interest together), and takes no view on how local authorities may choose to finance this. The Government has published benchmark figures for what the community charge ought to be in 1990-91; it is now for individual local authorities to make their decision, and it would be extremely unhelpful for another Government figure to come into circulation at this stage.

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G

LOCAL AUTHORITY CAPITAL

£ million

	1990-91	1991-92	1992-93
Bids	1,501	1,948	2,141
Outcome	605	670	582

Main Changes

The table covers central government support (credit approvals + capital grants) for local authority capital expenditure. The Survey outcome provides additional central government support relative to baseline for education, including school buildings and equipment (DES); for a new package for homelessness and ~~for~~ housing renovation (DOE); for major new local Transport projects, including Manchester Metrolink (DTp) and Manchester Airport's second terminal (DTp); and for dealing with waste disposal problems, including methane gas (DOE).

LOCAL AUTHORITY CAPITAL

Sensitive Policy Points

Central government support for LA capital has been increased above baseline in the Survey. But the level of central government support for LA capital expenditure, taken together with forecast local authority self-financed expenditure from the use of capital receipts and revenue contributions, implies a cut of £1.5 billion in gross LA capital expenditure between 1989-90 and 1990-91. (This reduction, however, is from a forecast gross overspend of £1.8b in 1989-90 - in large part a reflection of the imminent change to a new LA capital regime.) Nonetheless the settlement implies <u>real</u> cuts in gross capital spending on all main services - education, housing, transport, and environment.

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Points for Cabinet Discussion

The settlement is tight. But outcome reflects need to bring local authority expenditure back under control. LA gross capital is estimated to have grown by 16% in real terms over the last two years; repeated overspends on gross provision means LAs have been meeting more of their capital needs than Government planned for.

Central Government support for local authorities sufficient to provide for spending broadly in line with levels up to 1988-89 (ie before sudden surge in 1989-90). Authorities can sustain higher capital expenditure from their own sources of finance if they so choose.

DEFENCE

£ million

	1990-91	1991-92	1992-93
Bids	381	957	2,014
Outcome	0	215	750

Main Changes

£750 million has been added to the baseline for 1992-93.

Provision for 1990-91 and 1991-92 is consistent with the 1988 Survey agreement to a 3 year deal. Increase in 1991-92 is partly the agreed Treasury share of paying BNFL for the costs of disposal of MOD's pre-1971 nuclear wastes, and partly to cover the superannuation element in PSA's charges to MOD from April 1990, which will be offset in the planning total by receipts to the superannuation programme. Costs for 1989-90, 1990-91 and 1991-92 for BNFL and for the last two years for PSA superannuation have been reimbursed in 1991-92.

There is a new 3-year agreement covering 1990-91 to 1992-93. The defence programme is to be aligned with the cash plans by the end of LTC 90.

1988 SURVEY OUTCOME

DEFENCE

Sensitive Policy Points (for Cabinet discussion if raised)

Although defence spending rises in real terms by 3 per cent (on present inflation assumptions) over the period 1989-90 to 1992-93 the new provision does not amount to full compensation for changes in inflation since the 1988 Autumn Statement. Defence Secretary has implied he may have to make visible cuts in the defence programme. But the need to contain inflation is paramount. Defence Secretary agreed that we cannot be seen to accommodate inflation by adjusting totals agreed in 1988 Survey. The public sector like the private must accept that the same cash buys a little less, or become more efficient.

Defence spending will fall below 4 per cent of GDP for the first time since the Second World War this year or in 1990-91, and may be a lower percentage of GDP than French defence expenditure by 1992-93. The fall reflects the strong growth of GDP as a result of economic policies which depend upon expenditure restraint. Other countries - US, FRG, even France - are cutting back on defence spending.

5

I.2

FOREIGN AND COMMONWEALTH OFFICE
(DIPLOMATIC WING)

	1990-91	1991-92	£million 1992-93
Bids	+57	+67	+64
Outcome	+48	+57	+54

Main Changes

Agreement was reached on overall totals for the programme, subject to the usual adjustment for overseas price movements, which the above figures include, (£8.4 million each year). Officials were left to settle the final allocation of the totals between bids within 1 month, without any transfer from programme to running costs expenditure. The largest increases are for additional visa work, including new regimes for Turkey and the Maghreb. Largest capital increases, (mainly in 1991-92 and 1992-93), are for relocation away from London of some FCO and British Council staff.

Sensitive Policy Points (only if raised)

i) **Adjustment for overseas price movements means accommodating inflation?** A standing arrangement, agreed by the Prime Minister for the Diplomatic Wing only, to reflect exchange rate movements and differences in inflation rates between UK and overseas. This year an increase, but there were decreases for the previous 3 years. Treasury maintains downward pressure on Diplomatic Wing as elsewhere, requiring efficiency gains as for Home Civil Service.

ii) **More needed for Vietnamese Boat People?** No bid made. Requirement, if any, in Survey period uncertain.

FCO

I.3

OVERSEAS DEVELOPMENT ADMINISTRATION

	1990-91	1991-92	£million 1992-93
Bids	+139	+219	+335
Outcome	+82	+115	+144

Main Changes

Aid programme provision increases to £1587 million, £1678 million, £1748 million. The increases provide for the continuation of support for economic reform in Nigeria and for economic assistance via a Know-How fund for Poland, and additions to the Aid and Trade provision (ATP). The settlement also allows for increases in multilateral contributions, and for further bilateral aid to protect and enhance the environment in developing countries, especially by forestry conservation - Prime Minister has announced in UN speech that ODA aim to commit a further £100 million in bilateral aid for tropical forestry activities over next 3 years. On superannuation, additions reflect the general uprating in pensions resulting from revised economic assumptions.

Sensitive Policy Points

The provision made for ATP will allow the soft loans scheme to continue but only at around the lowest level of business considered by the interdepartmental review. This is less than DTI would have looked for had they been involved in the Survey. Should Mr Ridley raise the point, which is unlikely, it can be presented positively - namely that the soft loans scheme will continue, that funding has been provided to that end, and that in future the ATP budget will allow flexibility between soft loans and mixed credits.

ODA

Points for Cabinet Discussion

The Foreign Secretary is unlikely to raise any points. [He will not be briefed to do so.] If he does, he might draw attention to

a) **the likely decline in the aid/GNP ratio over the Survey period.** (From a likely figure of 0.30% in 1989-90 to 0.29%

in 1990-91 and 1991-92 and to 0.28% in 1992-93). Settlement provides for very substantial real terms growth over previous plans - 9% over the Survey period - in a programme which is not demand led. Provision in 1990-91 6% real terms increase over 1989-90.

b) **the limited funds available for environmental work which is of high political priority.** For ODA to increase the environmental focus and impact of their policies within agreed resources. Prime Minister's announcement at UN, of aim to commit further £100m over 3 years for bilateral aid for tropical forestry initiatives, shows what can be done. ODA plan to find this from within their provision.

c) **more needed for Hungary?** Not yet clear how much in 1990-91. Deal with it when position clearer: later years in next Survey.

CONFIDENTIAL

I.4

AGRICULTURE

		1990-91	1991-92	£ million 1992-93
Bids*:	IBAP and CAP	-107	-142	-103
	domestic agriculture	90	125	149
Outcome:	IBAP and CAP	-151	-158	-121
	domestic agriculture	53	67	82

* as at first bilateral

Main Changes

On IBAP and CAP market support, the outcome reflects the latest forecast, taking account of progress in CAP reform, expectations of lower intervention, and continued high world prices.

On domestic agriculture, there are significant additions for demand led programmes (main element BSE/salmonella slaughter and compensation costs), flood prevention, the set-aside scheme to reduce agricultural surpluses, and administration. In Scotland there are increases for a new rural enterprise programme, rationalisation of research and advisory bodies, and a new fisheries protection plane. There are offsetting savings mainly from reduced net costs of advisory services to farmers and registration of pesticides and veterinary medicines, reduced frequency of brucellosis testing, reduced support for the Potato Marketing Board's administrative costs, reduced grants for fishing vessels, increased land sales by MAFF, and reductions in the expected cost of the Scottish Agricultural Development Programme.

MAFF

Sensitive Policy Points

Mr Gummer has offered savings on grants for fishing vessels following an internal review, worth £4.0/£6.6/£7.4 million. However Mr Rifkind wants a decommissioning grant scheme which would more than wipe out these savings (likely cost £45m over 2 years), and has reserved the right to put one forward in the near future. The UK needs to reduce its fishing tonnage to meet an EC obligation; and there is overcapacity in the fleet, relative to our EC fishing quotas (recently reduced). We have agreed with MAFF that the reduction in fishing grants will not be mentioned in the Autumn Statement. MAFF have now said in Parliament that an announcement on fisheries policy will be made before Christmas.

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Mr Gummer may also mention waste disposal capital grants. A new scheme with a 50% grant rate, was introduced earlier this year, on the basis that the agriculture departments would take offsetting action (eg by reducing grant rates) if expenditure rose above the PES provision. Prior notifications have suggested overspending, but this pressure has yet to show itself in the expenditure figures themselves. It has been agreed that officials will report back by end January, if necessary with options for restraining expenditure to the new baseline. Mr Gummer may want to put down a marker now that he sees no scope for offsetting action given the current high political profile of pollution issues.

Points for Cabinet Discussion [only if raised]

(i) **Fishing decommissioning scheme:** Very expensive; PAC said previous decommissioning scheme conflicted with market forces and was poor value for money.

(ii) **Waste disposal capital grants:** Major/MacGregor agreement on offsetting action if overspend looms. Agreed in Survey on review at end January; MAFF free to set out then implications of any offsetting action.

(iii) **Tight settlement especially given poor figures for farming income:** CAP figures reflect best estimate of likely spend; domestic agriculture settlement is for substantial additions, implying eg 11% increase in 1990-91 over 1989-90. Farm incomes volatile; should show some improvement this year as result of better harvest.

(iv) **Not enough on food safety:** Accept food safety important. Additions agreed for some food safety measures, especially salmonella and BSE slaughter and compensation, and within running costs. Other essential work (eg research) can be met by re-ordering programme.

I.5

TRADE AND INDUSTRY

	£ million		
	1990-91	1991-92	1992-93
Bids	+18	+52	-25
Outcome	-50	-35	-148

Main changes

The net reduction includes savings resulting from lower than planned take up of DTI services. These include Regional Development Grants (-£32/-19/-47m) (following the scheme's closure in 1988) and the Business Development Initiative (including Regional Enterprise Grants) (-£69/-66/-66m). Net provision for English Estates has been reduced (-£17/-18/-18m) reflecting a higher level of receipts. These reductions are partly offset by increased expenditure on space projects, including ERS-2 and the Columbus Polar Platform (+£17/+24/+21m); support for shipbuilding (+£29/+11/-5) largely resulting from revised interest rate assumptions; and increased departmental running costs (+£21/+17/+15m).

Sensitive Policy Points

None

DTI

Points for Cabinet Discussion

(i) Reductions in CST paper are less than DTI offered (by £6/13/25m), because of the treatment of EIEC receipts. True: EIEC receipts are treated in this way for consistency with the national accounts.

(ii) Review of RSA must relax criteria and lead to increased provision. Survey was conducted on the basis of existing RSA guidelines. Interim review of RSA has put forward a number of proposals by operating departments and the Treasury for improving value for money and effectiveness. Full review expected in December. Cannot prejudice the outcome of that review, although hope there will be scope for improving value for money.

CONFIDENTIAL

(iii) Science and Technology spending down while shipbuilding up. Reductions on S & T spending reflect reduced requirements on launch aid and lower level of demand on support for innovation and the Business Development Initiative. Increase on shipbuilding largely reflects impact of higher interest rate assumptions on existing commitments.

(iv) EC R and D framework likely to result in Europes reductions. Europes implication of Framework programme discussed with departments. Impact on domestic programmes will depend on what is agreed about the programme. Decisions will not be taken in time for this public expenditure round.

pel.sc/hg/cb

I.6

ENERGY PROGRAMME

£ million

	1990-91	1991-92	1992-93
Bids	39	53	40
Outcome	34	46	33

Main Changes

The increases allow for cost rises on nuclear decommissioning and waste management operations; further expenditure on renewable energy sources, on R&D into "clean coal" and on energy efficiency. In addition, the new office of regulation for the electricity industry following privatisation is to have an annual budget of £11 million.

Sensitive policy points

Increases in the cost of expenditure on nuclear decommissioning and waste management amounting to 10 per cent of DEn's nuclear spending are the result of last year's decision to terminate the fast reactor, which has brought forward timing of the work; of the abandonment of sea dumping and of increased safety requirements. Clearly, these costs are to a large extent unavoidable. Total increase in renewable energy sources, energy efficiency and other work on climate change come to £18 million over the period. There have also been cuts in the programme spending of the Offshore Supplies Office, but not in the procurement work. The Secretary of State has agreed to a review of the OSO. The changes do not include reductions in the budget for electricity privatisation costs, since these are netted off proceeds and do not directly affect the public expenditure totals.

DEn

Points for Cabinet Discussion

None expected to arise.

3

CONFIDENTIAL

I. 7

DEPARTMENT OF EMPLOYMENT

	1990-91	1991-92	1992-93
Bids	141	169	253
Outcome	- 97	- 215	- 274

Main Changes

Against a background of falling unemployment, substantial reductions were agreed on the main Training Agency programmes. The largest reduction, rising to £200 million by 1992-93, is on the Youth Training Scheme, which was also substantially reduced in the 1988 Survey (by an amount rising to £270 million). This reflects the changed situation in the youth labour market, resulting not only from economic developments but also from the demographic decline in numbers of young people. The Enterprise Allowance Scheme, which pays unemployed people an allowance while they are starting a business, has been reduced by amounts rising to £55 million (a larger proportionate cut than on YTS). But Mr Fowler has chosen to protect his largest programme, Employment Training, where the maximum cut is £104 million, in order to achieve a target of 450,000 ET trainees a year. Significant increases have also been made for employment of the disabled, Employment Service rationalisation and, in 1992-93, for running costs.

Sensitive Policy Points

It is not expected that the cuts will threaten the Government's guarantees of training places for the unemployed and for young people.

Points for Cabinet Discussion (if raised)

(i) **Government cutting back on investment in training.** Cuts essentially reflect decline in client groups. It has always been the Government's stated policy that training for those already in employment is the responsibility of employers and employees.

(ii) **Implications for Training and Enterprise Councils.** TECs should operate to increase employer commitment to training, and reduce the need for Government subsidy.

(iii) **Wrong to cut when unemployment set to start rising again.** But it has fallen substantially since the 1988 Survey, and is still doing so.

DEMP

CONFIDENTIAL

I.8

DEPARTMENT OF TRANSPORT (excluding nationalised industries)

	£ million		
	1990-91	1991-92	1992-93
Bids	619	1,010	1,373
Outcome	425	525	550

Main Changes

Nearly all of the increase (£m 414/445/501) is for national roads. This provides for acceleration of the existing road programme, a start on the expanded programme agreed by EA, and increased provision for road maintenance and bridge strengthening.

Sensitive Policy Points

The Roads Review White Paper announced a doubling of the road programme, but left the timing to be decided in the context of the Survey. The level of increased resources made available inevitably reflects considerations of affordability, the impact on construction industry prices, and the manageability of a rapidly expanding programme. Mr Parkinson has chosen to allocate the lion's share of his increase (£m 264/260/291) to acceleration of the existing programme.

The increase for local authorities (£m 1/63/36) is insufficient to allow DTp to support the Sheffield Supertram, but does allow DTp to support the Manchester Metro and the second terminal at Manchester airport.

DTp

Points for Cabinet Discussion (if raised)

(i) **Inadequate response to Roads White Paper commitment**

Roads programme set to double between last year and 1992-93. Second year running in which DTp has had large increases (£1.5 billion this year and over £1 billion last year). Must balance need to improve roads against other priorities. No commitment to further increase in next Survey. Affordability paramount.

CONFIDENTIAL

DOE - HOUSING

	1990-91	1991-92	1992-93
Bids	1,015	1,226	1,306
Outcome	633	571	534

Main Changes

Major increases:

- new short-term homelessness initiative (£ +148/+102/+7 million) funded through the Housing Corporation and local authorities.

- Housing Corporation grant (£ +148/+198/+368 million) to support new provision of subsidised rented housing by housing asociations;

- local authority credit approvals (£ +77/+80/+50 million) intended to help local authorities meet the costs of renovating their own housing stock and grant-aiding low-income owner occupiers;

- technical additions (£ +402/+386/+394 million) resulting from the reform of the housing subsidy system for local authorities - will not affect GGE.

DoE Housing

Offsetting reductions on Housing Action Trusts (£-48/-40/-30 million) and New Towns where plans assume extra receipts (£-125/-147/-97 million)

CONFIDENTIAL

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Sensitive Policy Points

Rents: Settlement assumes 5 per cent real rent rise. This is the figure on which DOE have gone to consultation. [NB Mr Patten and other Ministers do not yet know about the Prime Minister's exchange with Mr Lawson.]

Housing Corporation: Substantial increases well below what Mr Patten was seeking. New provision not sufficient to provide 55,000 extra homes a year at affordable rents which DOE claims necessary to prevent homelessness from increasing.

Points for Cabinet Discussion

(i) **Not enough for Housing Corporation?**

- extent of extra provison needed very uncertain; depends on how people choose to live (eg whether and when to marry, or leave home); also depends on degree to which private sector can meet the demand - housing benefit is available for tenants on low incomes. Have agreed to large increases in a difficult year and to £¼ billion for a new homelessness initiative.

(ii) **Not enough for renovation?**

- again a question of priorities. Agreed provision will fund 100,000 renovations a year. Councils also able to spend from receipts. Massive LA capital overspend in 1989-90, largely on renovation.

I. 10

DEPARTMENT OF ENVIRONMENT (OTHER ENVIRONMENTAL SERVICES)

£ million

	1990-91	1991-92	1992-93
Bids	409	428	338
Outcome	234	158	160

Main Changes

- £35m/35m/35m for Countryside and Heritage, in particular provides for establishment of Climate Change Centre and extra environmental research.

- £22m/17m/4m to meet costs of National Rivers Authority.

- £19m/27m/32m for administration for increased environmental and Planning Inspectorate work.

- £260m/160m/25m for Urban Development Corporations particularly for transport projects in London Docklands.

- £100m/120m/125m additional credit approvals for Local Authorities to meet in particular costs of improving landfill disposal of waste and dealing with build up of methane gas in landfill sites.

Offset in part by increased New Town receipts and reduction in the provision for ERDF payments for Water companies.

DoE-OES

Sensitive Policy Points

The major proportion of Urban increase is being taken up by London Docklands Development Corporation. Could lead to accusations that the South East is being given further preferential treatment.

Points for Cabinet Discussion

(i) Very small proportion of money for Urban Development Corporations goes outside London Docklands.

- Cannot meet demands on all fronts, need to decide on priorities and allocate provisions accordingly. The London Docklands has a number of high priority projects which colleagues have agreed need support.

CONFIDENTIAL

I.10A

DOE - PSA

	1990-91	1991-92	1992-93
PSA Services			
Bid	65	60	49
Outcome	43	12	3
Property Holdings			
Bid	78	94	59
Outcome	39	9	-53

Main Changes

On Property Holdings the main increases are to cover the costs of rents (£12.5m/£12.5m/£12.5m) in leasehold properties; to undertake essential major works and estate rationalisation schemes (£10m/£10m/£5m); to further reduce the backlog of maintenance work (£5m/£5m/£5m); and to proceed with Bridge Street Parliamentary projects and the renovation of The Victoria Tower (£8m/£2m/£5m). The negative figure in the final year reflects increased PRS receipts

On Services, agreed additions are to cover the costs of the essential IT development (£18m/£4m/£4m) to produce commercial accounts and support systems; to cover the set up costs of new design offices (£5m/£5m/£5m); and the costs of redundancy of the directly employed labourforce (£7m).

Sensitive Points

We rejected a bid for a specific provision for freehold purchases but have said that we will consider, as we have in the past, any ad hoc value for money cases subject to availability of funds. Given that we have announced the decision to privatise services in 1992-93 Ministers may query the additional expenditure for IT. In fact the IT development of commercial accounts is a prerequisite of privatisation.

Points for Cabinet Discussion

Very unlikely that Mr Patten will raise any issues.

CONFIDENTIAL

I.11

HOME OFFICE AND CHARITY COMMISSION

£ million

	1990-91	1991-92	1992-93
Bids	607	868	1021
Outcome	316	413	441

Main Changes

The increases in central government provision are for:

improvements to prison buildings	91	130	80
prisons manpower for new prisons	0	9	68
other prisons (various)	15	26	68
non-prisons (various)	66	67	68

partly offset by:

reduction in the prison building programme:	93	182	218
and charging for the forensic science service:	0	23	24

Support to local authorities has been increased by £ 236/385/446 million, largely for specific grant on police current expenditure (£ 177/275/320 million, including provision for an additional 1100 uniformed officers).

Points for Cabinet Discussion (only if raised)

Reduction in the prison building programme Reflects prudent planning on the basis of the latest (reduced) prison population projections, but still allows for over 9,000 new places by the end of the Survey period. Provision for prison refurbishment has been more than doubled in each of the Survey years.

HO

DEPARTMENT OF EDUCATION AND SCIENCE

	£ million		
	1990-91	1991-92	1992-93
Bids	1,474	1,800	2,004
Outcome	782	870	878

Main Changes

The settlement allows increases between 1989-90 and 1990-91 of: 9 per cent for higher education, including cover for the costs of 27,200 more students than previously forecast; 8 per cent for the Science budget; and 24 per cent for maintained sector capital - mainly schools. The costs of introducing top-up student loans are also allowed for and student grants will be increased in September 1990 broadly in line with the GDP deflator.

Sensitive policy points

An 8 per cent increase in the 1990-91 academic pay bill is allowed for - less than the Vice Chancellors are looking for - plus sums to help higher education institutions deal with deferred maintenance.

Points for Cabinet discussion (only if raised)

(i) **Autumn Statement will show only small increases in central government support for higher education.** Increase is really much larger - 4 per cent real for 90-91 over 89-90 after adjustment for switch of £200/440/450 million from central government expenditure to the local authorities, to finance the higher tuition fees announced in July. New provision is made to pay the higher fee for all the extra 27,200 mandatory student award holders now forecast.

DES

(ii) **Government has abandoned commitment to CTCs.** Additional provision for City Technology Colleges will allow for the completion of 15 schools by Autumn 1991 - and the commitment to setting up 20 CTCs in the longer term remains.

(iii) **May need more money to get student loans Bill through.** The costs of the student loans proposals published last November have been fully provided for, but no concessions - which DES claim will be needed to ease the passage of legislation - have been allowed for. However, critics of the proposals are unhappy with the principle of the scheme not its detail. Concessions will be expensive, but may also be ineffective.

(iv) **State of schools and colleges a disgrace.** Additional provision of £130/130/130 million for maintained sector capital will allow for an expanded programme of improvement works in both Local Education Authority and voluntary-aided schools. This is in addition to substantial investment which local authorities have devoted to education - largely spending from receipts - which has made in-roads into the task of repairing and maintaining the school stock.

(v) **Must do more to attract more teachers.** Important bids for teacher supply measures were met in full.

CONFIDENTIAL

I.13

OFFICE OF ARTS AND LIBRARIES

£ million

	1990-91	1991-92	1992-93
Bids	51	52	90
Outcome	38	37	46

Main Changes

The bulk of the increase is for the three-year settlement (£33/33/42 million). This will provide for sizeable increases (12 per cent in cash between 1989-90 and 1990-91) in spending on the Arts, on museums and galleries, and on the current operation of the British Library. Other additions are an increase of £4 million in the construction programme in 1990-91 for the new British Library building at St Pancras and £1 million in 1990-91 to help the Library prepare for its move to the new building.

Sensitive Policy Points

Settlement allows for increases in each of the Survey years, even though essence of three-year programme, agreed in 1987 and reaffirmed last year, was that figures were not intended to be reviewed in intermediate years. Purpose of programme is to provide firm base for planning by subsidised arts bodies and to encourage them to become more self-reliant. But that approach has been put under strain by the impact of higher than predicted levels of inflation. The settlement provides compensation for this.

Points for Cabinet discussion (only if raised)

(i) Why has three year settlement been reopened when MOD allowed no more money? But terms of OAL settlement include a specific inflation clause, under which the deal could be reviewed - MOD settlement only talks of "significant" changes in economic assumptions.

OAL

DEPARTMENT OF HEALTH and OPCS

	1990-91	1991-92	1992-93
Bids	1,883	2,749	3,733
Outcome	1,194	1,548	2,122

Main changes

Large part of increase is for HCHS current (£651/892/1172 million) mainly providing for significant growth in services (290/435/858) plus knock-on effects of 1989 Review body awards. Increase in 1992-93 partly offset by planned £200 million in cost improvement programmes not included in baseline. Settlement also includes large amounts for implementing the NHS Review (257/316/311) and a large increase on the FPS programme to meet expected increases in demand (137/277/712).

Sensitive Policy Points

Prescription charges to be raised by 25p per annum (instead of 20p as in recent years).

Points for Cabinet Discussion (only if raised)

i. Settlement inadequate
Settlement recognises that Health is a priority programme this year, particularly with the NHS Review proposals. Settlement means that in 1990-91 NHS in England will enjoy £2 billion cash increase over 1989-90, with substantial increases in future years. Allows for continued growth in patient services plus necessary provision for implementing NHS Review.

ii. Increase in prescription charges
Raising the annual increase in prescription charges from 20p to 25p is justified by the forecast rate of increase of drug costs.

iii. Will need more for Community Care in next Survey
Some provision implicitly included in Local Authorities' settlement. Will consider need for further provision in next year's Survey.

D HEALTH

DEPARTMENT OF SOCIAL SECURITY

	£ million		
	1990-91	1991-92	1992-93
Bids	+912	+2491	+4995
Outcome *	+398	+1640	+3889

* The outcome reflects bids made by DSS in Survey. In addition, technical changes affecting rent rebate subsidy in England and Wales, which are part of the programmes of DoE and the Welsh Offices respectively, are scored by DSS in the Survey. These adjustments make total Survey changes of:-

	346	1585	3822

Main changes

Breakdown of outcome is:

Policy increases	+1054	+1355	+1502
Policy savings	-478	-551	-600
Economic/estimating changes	-323	+659	+2751
Administration	+145	+177	+236

Main policy increases are on poorer pensioners, poorer families, abolition of pensioners' earnings rule, and disability benefits. Main policy savings are from not uprating Child Benefit, changes in Statutory Sick Pay, and tightening up maintenance rules. Net policy increase is 580/800/900. Higher inflation assumptions add 580/1600/2050. Lower unemployment saves -410/-420/-430.

Sensitive policy points

Child Benefit; changes in Statutory Sick Pay; phasing out the Additional Pension paid with Invalidity Benefit; and abolition of the Reduced Earnings Allowance.

Points for Cabinet discussion

Child Benefit: Poorer families (¼ of total families) compensated for CB freeze (£100 million) and given real terms increase (£50 million) for 3rd year running. Cost of income support and family credit next year will be over £400 million more in real terms than pre-April 1988 system of supplementary benefit and family income supplement.

Statutory Sick Pay: great majority unaffected because covered by occupational schemes; those least likely to be in occupational schemes - those earning less than £84 a week - get 25p above RPI.

Additional Pension: existing claimants unaffected and accrued rights up to abolition fully protected; eligibility to basic invalidity benefit and age-related invalidity allowance unaffected; saves £370 million in 2000, £2 billion in 2025; will encourage further private sector provision.

Disability - general Real spending has doubled since 1979. AP and REA measures will only slightly reduce further growth in spending in next decade. Spending on disabled will continue to rise in real terms.

I.16

SCOTLAND

	1990-91	1991-92	£ million 1992-93
Bids	+173	+200	+219
Outcome on bids	+142	+143	+137
Consequentials	+337	+387	+464
Total change on programme	+479	+530	+601

Main Changes

Agreement was reached on block and non block programmes. On the non block the major change was the reduction in the net programme of the Scottish Development Agency as a result of higher receipts.

On the block additional provision has been agreed exceptionally for local authority capital expenditure on water services, for which there is no comparable provision in England and Wales following privatisation. The amount of Aggregate Exchequer Grant was negotiated separately rather than by the usual territorial formula, while the funding of that settlement and of the move towards harmonising business rates with those in England was aided by transfers from elsewhere within the Scottish block.

Points for Cabinet discussion (only if raised)

(i) **Mr Rifkind's settlement includes an addition for area safety nets, whereas none was agreed for Wales.**

Mr Rifkind accepted formula funding of the overall local authority current settlement, which was lower than the actual cost of the settlement. Mr Walker was not asked to do the same and had been able to address the position in Wales by an imaginative use of the funds provided for transitional relief. These factors were taken into account in reaching a decision on the area safety net.

SCOTLAND

(ii) **Will need acceptance that water is negotiated separately in future Surveys**

Would need to consider any future bids in terms of affordability and circumstances of the time. Trust substantial addition made to block will alleviate need for any such bids.

(iii) **Will not accept in future Surveys formula consequentials for AEG unless Wales does too**

Need to consider conduct of future Surveys at appropriate time - next Spring for 1990 Survey.

(iv) **Can only accept formula on basis that we stick to normal 10/85ths formula. Fed up with Treasury sniping at it.**

Can be no presumption that 10/85ths will stand for all time. But clearly any change would need to be agreed.

I.17

WALES

	1990-91	1991-92	1992-93
Bids	+239	+324	+273
Outcome on Bids	+136	+130	+109
Consequentials	+171	+191	+221
Total change on programme	+307	+321	+330

Main Changes

Agreement was reached on the industry programme and those elements of the Welsh Block, principally local authority current grants, which were negotiated separately.

Points for Cabinet Discussion (if raised)

(i) **Will need more for home improvement grants was rejected.**

Bid rejected as demand and take up of the new scheme were difficult to predict. This was on the understanding that sympathetic consideration would be given in year to claims arising from higher than expected grant applications.

(ii) **No provision for area safety nets in Wales whereas England and Scotland have agreed bids for such systems.**

This was because the Welsh transitional relief scheme addresses the (lesser) problems in Wales that require safety netting in England and Scotland. The particular form of transitional relief (ward based) chosen in Wales addresses the problem that the English safety net addresses. And those problems are much smaller in Wales given the lower level and narrower dispersion of community charges there. And Wales, unlike Scotland, received full funding for the local authority current grants settlement. If like Scotland they had received formula based consequentials they would have had to find about £25 million a year from other programmes. This more than compensates Wales for the absence of safety net provision.

WALES

(iii) **Review of RSA must relax criteria and lead to extra provision if Welsh economy to thrive**

Survey was conducted on basis of existing RSA guidelines. Interim review of RSA has put forward a number of proposals by operating departments and the Treasury for improving value for money and effectiveness. Full review expected in December. Cannot prejudge outcome of that review, although hope that there will be scope for improving value for money.

(iv) **Will need to return for more for Cardiff Bay**

Decision to proceed with Cardiff Bay was conditional on you absorbing costs. Unwilling to go beyond concession offered in Survey that you can switch funds from cash limited industry programme.

I.18

NORTHERN IRELAND

£ million

	1990-91	1991-92	1992-93
Bids	139.0	229.0	321.0
Outcome	296.0	362.0	442.0
Of which consequentials	181.0	198.0	219.0

Main changes

£m71/73/75 - formula consequentials of LA grant related expenditure.

£m110/125/143 - other formula consequentials.

£m86/137/204 - ring-fenced Social Security benefit expenditure revised for lastest economic assumptions.

£m29/29/21 - Shorts privatisation.

Sensitive policy points

There are none for Northern Ireland.

Points for Cabinet discussion

Need to provide for Flue gas desulphurisation for Kilroot

Matter for 1990 Survey. Hope given high level of consequentials you will be able to absorb any costs arising before privatisation in Spring 1992.

N. IRELAND

INLAND REVENUE

£ million

	1990-91	1991-92	1992-93
Bids	206	267	330
Outcome	194	174	214

Main Changes

The increase for administrative costs (£63/113/171 million) is on the current expenditure side mainly to meet the costs of revised pay assumptions for future years and relocation of some 2,100 HQ staff; and, on the capital side for new building works and IT projects. Additional provision (£131/61/43 million) was also agreed for expenditure on payments of life assurance premium relief and mortgage interest relief to non-taxpayers.

Sensitive Policy Points

Alternative to funding cost of revised pay assumptions would have been very significant reductions in staffing (5,000 rising to 10,000). Most undesirable, given the need for a smooth and successful introduction of Independent Taxation.

CUSTOMS AND EXCISE

£ million

	1990-91	1991-92	1992-93
Bids	54	58	108
Outcome	39	54	105

Main Changes

Increase provides for costs of revised pay assumptions, forecast increases in workloads and preparatory work for the Single Market and the Channel Tunnel. In addition there are costs associated

IR+CkE

with relocating some 2,350 HQ staff. On the IT side there is provision for a successor to the VAT system.

Points for Cabinet Discussion

Customs being given another large increase in running costs [90% of their programme is for running costs]. Cost of not funding revised pay assumptions would have been large cuts in staffing. Resulting losses in revenue from VAT disproportionately large, and also cuts in resources and compliance activity would carry danger of the tax losing credibility. Important to maintain drugs effort with selective improvements. New requirements to prepare for the Single Market and the Channel Tunnel and to meet the costs of relocation.

CONFIDENTIAL

E.20

NATIONALISED INDUSTRIES

	1990-91	1991-92	£ million 1992-93
Bids	+1110	+979	+1002
Outcome	+915	+532	+512

Main Changes

Substantial increases in planned investment by British Rail on rail infrastructure for channel tunnel services; by London Regional Transport to help deal with congestion and further improve safety; and by Post Office to deal with increasing mail volumes. Also lower contribution from electricity in 1990-91 (ie reduction in negative external financing limit), in part reflecting Government's flotation timetable. The external financing requirement for British Coal is provisionally set in line with 1989 PEWP plans but will be reviewed in the light of the outcome of negotiations with the electricity industry on contracts for coal purchases. No provision is made for London Regional Transport's rail projects in London as final decisions have not been made.

Sensitive Policy Points

i. The Prime Minister decided in June that Post Office letter tariff increases in 1989 should be limited to 1p/1p. The Post Office IFR settlement now assumes 2p/2p in 1990 and, 1p/1p, 0p/0p in the next two years. Mr Ridley will write to E(A) in the next few weeks to propose financial targets for the Post Office. An adequate return on capital for the Letters business will imply higher than 1p/1p increase in October 1990.

ii. Electricity prices expected to rise by 6½% in 1990-91.

iii. Negotiations continuing on developers' contributions to London Regional Transport's Jubilee line extension. No provision is included in Autumn Statement plans, to strengthen Mr Parkinson's hand in negotiations. He will be reporting to the Prime Minister on the negotiations shortly.

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Points for Cabinet discussion

i. **Next years letter tariffs.** Support Mr Ridley. Now clear that implications of 1p/1p for Letters' profitability and public expenditure quite unacceptable. Higher tariffs needed in 1990 to support improvement in quality of service and deal with volume growth.

ii. **Rail increases still too high.** Increases planned for February 1990 will be average of 9 per cent (cash) for BR; [10] per cent (cash) for LRT. Thereafter plans assume modest real increases - about 2½ per cent a year for BR and 3 per cent for LRT. Justifiable by reference to high investment to increase quality of service.

iii. **London congestion requires new rail links.** Plans allow for major upgrading and provision will also be found for Jubilee line subject to negotiations with property developers. Other possible schemes require further work; too early for commitment to public expenditure figures.

iv. **Must provide for public sector Chunnel link.** No basis for early public expenditure on building new link. Would require subsidy which not only wrong but also illegal. BR seeking joint venture for private sector expenditure.

v. **30,000 Coal redundancies unsustainable.** Always recognised that coal industry will face further restructuring - much of it would have to happen independently of privatisation. We do not know yet what will be needed; that will depend on coal contracts currently being negotiated. Expect to be able to secure a manageable transition. [IF PRESSED Mr Wakeham can elaborate]. We will need to look again at British Coal's EFL when the implications of the contracts are clear.

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I 21

PRIVATISATION PROCEEDS

				£ million
	1989-90	1990-91	1991-92	1992-93
Total Net Proceeds	4250	5000	5000	5000

The figure of £4¼ billion for 1989-90 is below the previous published estimated of £5 billion. It takes account of the cash injection of £1.5 billion into the water companies announced on 26 October.

The estimates of £5 billion for 1990-91, 1991-92 and 1992-93 represent our unchanged broad assessment of the proceeds from instalments from earlier sales, particularly Water, and from Electricity. The likely proceeds from Electricity remain very uncertain. Even allowing for the exclusion of nuclear power, there is no basis for moving either way from the now familiar published assumption of £5 billion a year. There is no specific assumption on the timing of a British Telecom sale other than it would be after Electricity, and the next Election, and possibly in 1992-93.

Defensive

(i) Proceeds too optimistic given uncertain stock market:

Revised estimate of £4¼ billion for 1989-90 current best assessment. Obviously, water sale will be priced in circumstances obtaining at time. No reason to change assessment now.

(ii) Electricity privatisation now clearly off course:

Decision to exclude nuclear power enhances Government's ability to complete sale of industry this Parliament. Intend to privatise distribution companies in Autumn 1990, and conventional generating companies in first half of 1991. Accept that the public expenditure implication of the impact on British Coal will need to

PRIVATISATION PROCEEDS

be reassessed. No doubt that the coal industry will face further restructuring, but much of that would have to happen anyway; expect to be able to secure a manageable transition.

E1 PUBLIC EXPENDITURE 1990-91 to 1992-93

Other relevant briefs:

E2	New planning total
E3	Public expenditure: historical statistics, plans and international comparisons
E4	Investment, infrastructure and other public sector capital
E5	The Autumn Statement and business
E6	Public expenditure 1989-90
E7	Local authority issues: key points

Factual

(i) New Totals	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
New planning totals (£ billion)	142.5	145.5	161.7	179.0	192.3	203.4
Real terms growth on previous year (per cent)	-0.5	-4.8	+3.8	+5.4	+3.8	+2.7
Components of planning total[1] (£ billion)						
central government's own	111.2	116.3	126.5	137.8	145.3	152.2
central government support for local authorities	35.6	36.4	38.1	41.8	43.8	44.9
public corporations	0.8	-0.2	1.5	1.4	2.3	2.3
Privatisation proceeds	-5.1	-7.1	-4.2	-5.0	-5.0	-5.0
Reserve				3.0	6.0	9.0
General government expenditure (excluding privatisation proceeds) (£ billion)						
AS 1988	176.7	186.9	198.7	210.0	221.0	(229.0)[2]
This Autumn Statement	177.7	185.7	200.5	215.4	227.2	239.1
Real terms growth on previous year (per cent)						
AS 1988		-0.4	1.3	2.1	2.2	(0.9)[2]
This Autumn Statement		-2.6	0.9	2.3	1.9	2.2

(1) Components may not sum to new planning total because of rounding and, for 1989-90, an adjustment for the difference between the assessment of the likely outturn and the sum of the components.

(2) 1989 FSBR

MAIN PES BRIEFING

(ii) Longer term trends

Average annual percentage change in real terms

	1968-69 to 1978-89	1978-79 to 1988-89	1984-85 to 1992-93	1988-89 to 1992-93	1989-90 to 1992-93
General government expenditure - excluding privatisation proceeds	2.9	1.2	0.8	1.8	2.1
New planning total (- includes privatisation proceeds)			1.1	3.9	4.0

(iii) Ratio of GGE (excluding privatisation proceeds) to GDP (per cent)

1963-64	36¼	
1965-66	37¼	
1966-67	38¾	
1967-68	42¼	
1969-70	40¼	
1975-76	48½	(post war peak)
1978-79	43¼	
1982-83	46¾	(peak under this Government)
1984-85	46	
1985-86	44½	

	AS 1989	AS 1988
1986-87	43½	43¾
1987-88	41¼	41½
1988-89	39	39¾
1989-90	38¾	39¼
1990-91	39	39
1991-92	38¾	38¾
1992-93	38½	not app

(iv) Additions to projected GGE and previous spending plans (£ billion) over first 2 Survey years

		GGE (exc priv proc) Cash	GGE (exc priv proc) Per cent	Increase as Per cent of GDP	Planning Total Cash	Planning Total Per cent
AS	1986	+4.2/+4.9	2.5/2.8	1.0/1.1	+4.7/+5.5	3.3/3.7
	1987	+3.3/+5.4	1.8/2.8	0.7/1.1	+2.6/+5.6	1.6/3.3
	1988	+0.6/+2.9	0.3/1.4	0.1/0.5	+0/+3.3	-/1.9[1]
	1989	+5.4/+6.2	2.6/2.8	1.0/1.1	not app[1]	not app[1]

1 There are no published previous spending plans on a new planning total basis, but definition of GGE remains unchanged.

(v) Main changes to central government's own expenditure[1]

	1990-91 £ million	1990-91 per cent of previous plan	1990-91 per cent of previous plan adjusted for changes in expected price levels	1991-92 £ million	1991-92 per cent of previous plan	1991-92 per cent of previous plan adjusted for changes in expected price levels
MOD	+10	neg	-4.1	+250	1.1	-3.5
ODA	+80	5.1	0.7	+110	6.9	2.0
IBAP	-200	-15.6	-19.1	-200	-13.7	-17.7
MAFF	+30	3.9	-0.5	+50	5.9	1.0
DTI	-80	-6.3	-10.2	-70	-5.8	-10.2
DE	-110	-3.1	-7.2	-220	-6.2	-10.5
DTp	+430	22.6	17.5	+460	23.9	18.1
Housing	+200(+560)[2]	12.0(33.5)[2]	7.4(28.0)[2]	180(+550)[2]	9.0(27.4)[2]	3.9(21.5)[2]
OES	+60	11.1	6.4	+50	9.5	4.4
HO	+80	4.1	-0.2	+20	1.3	-3.4
Legal	+80	6.6	2.1	+120	9.4	4.4
DES	+410(+190)[2]	9.4(4.2)[2]	4.8(-0.1)[2]	+490(0)[2]	10.9(0)[2]	5.8(-4.6)[2]
OAL	+40	9.1	4.5	+40	8.2	3.2
DH	+1170	5.6	1.2	+1530	7.0	2.1
DSS	+670	1.3	-2.9	+1800	3.3	-1.5

1 Central government's own expenditure is unaffected by the new definition of the planning total

2 New plans not comparable with old due to switches of function between central and local government. Main figures in table are adjusted to be on a comparable basis: ie for Housing, main figures give additions before the effects of the new Housing Revenue Account system are taken into account; for DES main figures give additions before switch from grants to Universities Funding Council for student awards to reflect higher University fees. Figures in brackets are derived directly from AS numbers; these figures are distorted and should not be used. (See also Briefs EE 10 and 14.)

(vi) Real growth in key central government programmes (per cent)

	1990-91 compared to			1992-93 compared to
	1978-79	1988-89	1989-90	1988-89
MOD	14.4	-1.1	-0.6	2.5
ODA	-9.4	-0.7	2.1	2.4
IBAP	35.5	-6.6	18.8	6.3
MAFF	-15.5(3.1)[1]	16.1(41.7)[1]	14.5	19.1(45.1)[1]
DTI	-59.8	-35.2	-4.4	-50.1
DE	34.7	-14.2	-6.6	-21.5
DTp	96.1	46.4	11.8	49.1
Housing	-50.1(-40.4)[1]	21.8(45.4)[1]	16.5(39.0)[1]	39.4(62.5)[1]
OES	57.5	1.5	4.8	-23.4
HO	105.8	24.7	9.2	15.3
Legal	194.5	24.9	7.4	36.3
DES	27.2(62.2)[1]	8.1(37.8)[1]	7.2(1.4)[1]	8.1(43.4)[1]
OAL	50.4	6.2	7.2	9.7
DH	41.0	6.4[2]	4.9[2]	10.9
DSS	30.2	4.2	5.1	11.6
Total central govt	25.2	5.4	3.7	9.2

1 AS figures for 1990-91 not comparable with earlier years due to switches of function between central and local government. Main figures in table are adjusted to be on comparable basis: ie for Housing, figures show growth before the new Housing Revenue Account system is taken into account; the DES figures are adjusted to ensure comparable treatment of polytechnics and student fees (although figures are still not fully comparable). Figure from MAFF adjusted to take account of inclusion in central government programme from 1989-90 of spending on flood defence and coast protection (growth between 1989-90 and 1990-91 unaffected). Figures in brackets are derived directly from AS; these are distorted and should not be used.

2 When superannuation charges, cost improvement programmes etc are taken into account, real growth in NHS (England) is over 9 per cent between 1988-89 and 1990-91 and over 5½ per cent between 1989-90 and 1990-91.

(vii) Economic assumptions

	1989-90			1990-91			1991-92			1992-93		
	1988 AS	1989 FSBR	1989 AS	1988 AS	1989 FSBR	1989 AS	1988 AS	1989 FSBR	1989 AS	1988 AS	1989 FSBR	1989 AS
Unemployment (GB narrow, millions)	1.9	1.9	1.67	1.9	1.9	1.75	1.9	1.9	1.75	not app	1.9	1.75
GDP[1] deflator (per cent)	5	5½	7	3½	4	5	3	3	3½	not app	2½	3
Money GDP[1] (£ billion)	508	509	517	539	539	552	569	571	587	not app	603	621
Real GDP growth (per cent)	+2.7	+2.5	+1.5	+2.5	+2.0	+1.7	+2.5	+2.75	+2.75	not app	+2.75	+2.75

	September 1989 to September 1990			September 1990 to September 1991		
	1988 AS	1989 FSBR	1989 AS	1988 AS	1989 FSBR	1989 AS
RPI (per cent)	4	4	6.5	not app	2.5	3.0

(1) Introduction of community charge in Scotland has reduced both GDP deflator and money GDP by about ¼ per cent from 1989-90. There will be larger reduction from 1990-91 following introduction of community charge in England and Wales which is not allowed for in projections for 1990-91 onwards. See C1, factual (xii).

(viii) Reserves

Old planning total	Year 1	Year 2	Year 3
(£ billion)			
1984 PEWP	2.75	3.75	4.75
1985	3.0	4.0	5.0
1986	4.5	6.25	8.0
1987	3.5	5.5	7.5
1988	3.5	7.0	10.5
1989	3.5	7.0	10.5

New planning total	1990-91	1991-92	1992-93
1989 AS	3.0	6.0	9.0

New planning total Reserve only covers contingencies within planning total, ie it no longer covers uncertainties about the expenditure which local authorities determine and finance for themselves; hence smaller then old planning total Reserves.

For the use of the Reserves in 1989-90, see E6.

Positive

(i) Government sticking to sound financial policies and firm control of public spending

- held to ratios in last year's Autumn Statement for 1990-91 and 1991-92, with continued decline in 1992-93 (not covered by last year's Autumn Statement).

- ratio in 1992-93 is lowest level since 1965-66; 8¼ per cent below 1982-83.

- average real growth of GGE over period 1988-89 to 1992-93 projected to be 1¾ per cent, same as the rate of growth projected in last year's Autumn Statement for 1988-89 to 1991-92. (Average growth 1984-85 to 1992-93 only ¾ per cent a year.)

(ii) Within firm overall control, Government has added to priority programmes

- substantial extra resources allocated to key programmes [see factual (v)].

- increases build on substantial additions announced in last year's Autumn Statement.

- key programmes show substantial growth between 1988-89 and 1990-91 [see factual (vi)].

- affordable because of declining requirements elsewhere, greater efficiency and continued fall in burden of debt interest (due to budget surplus).

- real growth of central government spending averages 2¼ per cent a year from 1988-89 to 1992-93 compared with growth in GGE of 1¾ per cent over the same period.

(iii) Programme bull points (see Annex A) Health: extra money for growth in patient services on top of NHS Review costs. Transport: substantial increases in national roads and rail. Housing: new homelessness package, support for housing associations. Social security: real increases in benefits for families, long term sick and disabled. Also higher education (student support), arts, environmental research and protection.

(iv) £1½ billion increase in provision for capital investment by central government; public corporations, - massive rise between 1988-89 and 1990-91 building on increases in last year's Autumn Statement.

Defensive

(i) Additions to GGE show spending out of control? Same ratios of GGE to GDP as in last Autumn Statement for 1990-91 and 1991-92, and downward trend of ratio over time maintained. Real growth of 1¾ per cent on average from 1988-89 to 1992-93 - same as increase from 1988-89 in last year's plans. GGE in 1990-91 only 2¼ per cent higher than 1984-85 in real terms. Average growth 1984-1985 to 1992-93 only ¾ per cent a year.

(ii) Additions to GGE inconsistent with tight fiscal position Decisions on PSDR for Budget. New plans hold to previously published ratios, [in spite of lower projections of real growth of GDP].

(iii) Biggest ever additions to GGE? About same as a percentage of GDP as in 1986 Autumn Statement. Consistent with GGE ratios in last year's AS and with further downward movement. Additions include substantial infrastructure spending.

(iv) New planning total grows sharply in real terms in 1989-90 after 5 years of no growth. Lower in 1989-90 in real terms than in any year since 1984-85 except 1988-89. Growth reflects some recovery from 1988-89 level - unexpectedly low due to net repayments by nationalised industries and high privatisation proceeds

(v) 5¾ per cent real increase in new planning total between 1989-90 and 1990-91. Largely reflects introduction of new system of local government finance in 1990-91. Huge swing from LA spending outside new planning total in 1989-90 to CG support for LAs, which is within it. Real increase in central government support for local authorities reflects introduction of new capital regime, transitional measures to ease introduction of community charge and increase in other current grants - particularly community charge benefit (more generous than old rate rebates). Also AEF (adjusted for functional changes) rises in real terms. Central government's own spending (75 per cent of planning total) shows real growth of 3¾ per cent - substantial real increases in priority programmes [factual (vi): eg DTp 12 per cent, law and order 8.5 per cent, housing more than 15 per cent]. Affordable within even lower growth of GGE because of declining debt interest (16 per cent reduction in real terms).

(vi) Government simply accommodating inflation? Of course costs risen, but no across-the-board automatic compensation for inflation. Key priorities show substantial real growth; some programmes show cash fall [see factual (v)]. GGE in 1990-91 in real terms lower in this Autumn Statement than in AS 1988.

(vii) Spending growth accelerating in real terms Average real growth of GGE 1¾ per cent from 1988-89 to 1992-93, same as in last year's plans for 1988-89 to 1991-92. Same as real growth from 1978-79 to 1986-87. Much lower than 3 per cent real growth in decade to 1978-79. Faster growth of spending on programmes possible within these totals because sound financial policies have led to declining burden of debt interest payments.

(viii) Allowance for total local authority spending unrealistically low; overspend of 1989-90 will be repeated in 1990-91 GGE figures include projection of local authority spending trends allowing for adjustment after this year's massive overspending on capital and greater discipline under new arrangements for

Local Government finance. (1989-90 overspending partly reflects capital surge ahead of new control arrangements.)

(ix) Are local authority projections consistent with Community charge of £278? Projected from total expenditure trends, not built up from sources of income. Consistent with a wide range of community charges. Actual charge depends on local authorities. Definition of local authority spending in Autumn Statement much wider than Total Standard Spending. Local authorities have substantial spending power from accumulated receipts and other sources, as well as income from community charge.

(x) Should spend more on vital public services New plans imply selected increases to improve quality of key public services [Annex A]. Key programmes show massive real growth next year over last [See factual (vi); eg DTp up over 45 per cent; Housing, HO, legal departments up over 20 per cent; DH up over 9 per cent].

(xi) Extra spending possible given PSDR Fiscal policy has to remain tight in support of battle against inflation. Policies to defeat inflation already restricting private demand; cannot allow them to be undermined by imprudent expansion of public spending.

(xii) Tough Survey? What has been cut?

- Child benefit frozen for 1990-91 at current level of £7.25 a week (saves over £250 million a year, net of offsetting increases in targetted benefits)

- Lower spending a Employment Training and YTS schemes (£100 million in 1990-91: reflects falling unemployment and (for YTS) falling numbers of young people and in increase share of costs borne by employers.

- Lower spending on Regional Assistance and Business Development Initiative: reflecting more realistic forecasts of take-up and more selective approach to regional assistance.

- Four new prisons delayed beyond 1992-93 out of total programme of 28, in light of recent projections of prison population.

- Reduced provision for Housing Action Trusts (£50 million less in 1990-91 than previous plans) because of slower progress than expected in setting up HATs.

- Scotland - part of cost of financing central government grants to local authorities met by transferring resources from elsewhere in block budget, rather than extra finance from Exchequer.

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

(xiv) Reserves of £3/6/9 billion inadequate; cash plans not credible Reserves are amply prudent. Slightly lower than those set in recent years (£3½/7/10½ million), reflecting more limited coverage of the new planning total (central government's own spending; its grants etc to local authorities; public

corporations; and privatisation proceeds; not spending local authorities finance from own resources). This year current estimate of outturn suggests only about £1½ billion of Reserve needed for those items.

(xv) Reserves too large - see brief E2 defensive (vii).

(xvi) How much added to previous plans? Previous plans did not include forward figures for key elements in the new planning total ie central government support for local authorities. So not possible to say what has been added on a new planning total basis. Plans are now established on new basis for 3 years ahead, so comparisons will be shown in future Autumn Statements.

On old basis, not possible to make precise comparison: decisions on new plans not taken on that basis. But possible to make broad estimate of addition in 1990-91 on old basis: might have been broadly of same order as the published addition to GGE (ie about £5 billion), perhaps a bit less.

(xvii) Why use 1988-89 as basis for calculating average real GGE growth to 1992-93? [Last year used 1988-89; equivalent year this time would be 1989-90]. Figures for GGE in 1989-90 still very uncertain; for 1988-89 we have a firm outturn figure. So 1988-89 more reliable base year. Convention used in Autumn Statements prior to 1988. (Forecast for 1988-89 excluding privatisation proceeds has been revised down by £1½ billion between 1988 AS and latest estimate.)

(xviii) What 3 year deals struck? As last year, MOD and OAL: firm 3 year settlements confirmed and rolled forward. Additions consistent with last year's settlement. [Firm 3 year settlements for programme spending useful where annual review of plans less likely to require changes over coming 2 years; only case for small number of Departments.]

(xix) What would ratios have looked like if you had implemented the CSO's classification for community charge [See E3 defensive (iv).] Effect of classification change reduces money GDP and GDP deflator, and adds to ratios. Statistical effect only.

(xx) Why is assumption for unemployment level for 1990-91 and beyond higher than current level? [GB unemployment September 1989: 1.6 million; assumption for future years 1.75 million. Assumption is stylised, rounded figure used as basis for provision for social security expenditure. It is not a forecast. [For prospects for unemployment see brief B1.]

(xxi) What was original total of bids? Important point is what the new plans are. Would not expect details of negotiations between Departments and Treasury.

(xxii) What would ratios have been if real GDP growth same as projected last year? Lower real growth of economy necessarily means higher ratios, if all else equal; but in fact ratios for 1990-91 and 1991-92 unchanged from last year's Autumn Statement, despite lower projected real economic growth. Demonstrates firm grip on public spending.

(xxiii) When was last time ratio rose? Small rise 1984-85 due to miners' strike. Otherwise has not risen since early 1980s. As Chancellor told TCSC (as CST, November 1988), perfectly possible, if economy slows down substantially, for ratio to turn upwards in a particular year; but does not mean downward trend of ratio will not continue over time.

(xxiv) What increases in efficiency have been assumed?

- Significant efficiency savings in civil service running costs (details to follow in 1990 PEWP)

- new cost improvement programmes in NHS (UK) release extra £185 million resources for patient care in 1990-91 (compared to previous plans)

- Audit Commission has identified potential savings in local authority spending of £900 million per year, of which £300 million already implemented. New LA finance regime designed to encourage efficiency in local government by increasing accountability.

(xxv) What has happened to debt interest? Cash figures for Central Government debt interest 1990-91 and 1991-92 consistent with figures for general government debt interest published in 1989 FSBR. Estimated outturn for 1989-90 higher than implied by FSBR. This, and new inflation assumptions for future years, imply faster fall in real terms than assumed in FSBR, and faster fall as per cent of GDP.

NB FSBR figures for debt interest were lower than 1988 Autumn Statement (by £½ billion in 1990-91 and £1 billion in 1991-92).

[Figures for general government debt interest will be in the Written Autumn Statement, published 22 November.]

Contact point: Sarah Walker (GEP1) 270 5522

ANNEX A

(i) Programme bull points

Figures represent additions to programmes for 1990-91 and 1991-92 unless otherwise stated

[More detail on capital in E4]

HEALTH (England)	Total increase	£1150/£1510 million
	of which:	
	Full costs of NHS review proposals	£260 million in 1990-91
	First 70 of 100 extra consultants	£25 million in 1990-91
	Action on food safety and animal health (MAFF)	£4 million per year
TRANSPORT	New roads construction	£325/325 million
	Clear maintenance backlog by 1992-93	£60/90 million
	Current road maintenance	£25/30 million
	Manchester Metrolink	£93 million in total
	Docklands road and rail links (DOE)	£200 million in 1990-91
SOCIAL SECURITY		
	Pensions (already implemented)	£575 million in 1990-91
	Widows	£5 million in 1990-91
	Lone parents	£10 million in 1990-91
	Poorer families	£150 million in 1990-91
	War pensioners	£4 million in 1990-91
	16-17 year olds	£4 million in 1990-91
DISABLED	- real increase in benefits (DSS)	full year cost:£100 million
	- help into work (DE)	£13/18 million
HOUSING	Homelessness initiative	£148/102 million over 2 years
	More subsidised rented housing	£149/198 million over 2 years
LOCAL GOVT	Community charge transitional relief Area protection grant for community charge Grant for areas of low rateable value Extra grant for education authorities taking over from ILEA	) £670/840/540 million in total

EDUCATION	Top-up student loans	£130 million in 1990-91
	City Technical Colleges	£10 million in 1990-91
	Grant-maintained schools	£17 million per year
	Increasing supply of teachers	£5 million in 1990-91
	Improving fabric and equipment of Higher Education colleges	£30 million per year
	Improving fabric and equipment of schools (to implement national curriculum):	
	- Voluntary aided Schools	£15 million in 1990-91
	- LEA Schools	£436 million in total in 1990-91
	Provision for 27200 extra students in 1990-91	£33 million extra in grant to local authorities for 1990-91 (on top of amount required to increase awards for existing students)
ENVIRONMENT	National Rivers Authority (DOE)	£20 million in 1990-91
	Bilateral aid for tropical forestry initiatives (ODA)	£100 million over 3 years
	Flood defence (MAFF)	£37/42/47 million in total
	Pilot schemes to test measures to reduce nitrate leaching into water (MAFF)	£1/2 million
	Capital grants to farmers to improve local environment (MAFF)	£3 million in 1990-91
	Earth Remote Sensing satellite (DTI)	£12/13 million per year
	Research into renewable energy resources (DEn)	)
	Energy efficiency	) £8/3 million
	Development of cleaner power generation (DEn)	)
	Environmental research (DOE)	£8½ million per year including £4/5 million for establishment of climatic change centre
	Antarctic logistics and research vessel (DES)	£17 million in 1990-91
	Countryside (DOE)	£6 million per year
	More resources for Pollution Inspectorate (DOE)	£0.7 million per year
	Remedial works on waste disposal, landfill sites and waste incineration (DOE)	£43 million in total 1990-91

LAW AND ORDER	Prison refurbishment	£80/70 million
	Diversion from custody	£7/11 million
	Anti drugs measures	£5/7 million in 1990-91
	1,100 more policemen	full year cost: £17 million
	Procedural changes in order to make the courts more cost effective	£2.75 million in 1990-91
	Legal aid	£9 million in 1990-91
DEFENCE	Held to 3 year plan. Substantial additions in 1992-93	Provision in 1992-93 £1.1 billion higher than 1991-92
OVERSEAS AID	Know-how fund for Poland	£5 million per year
	Economic reform in Nigeria	£47.5 million per year

OTHER BRIEFING

EFFECT OF INFLATION ON DSS PROGRAMME

— CONFIDENTIAL —

P.P on Weds cabinet folder

(Discussed with, and approved by, JM)

FROM: P.H.HAMSHARE (ST1)
DATE: 14 NOVEMBER 1989
Extn. 5045

1. MR. McINTYRE
2. CHIEF SECRETARY

cc: PS/Chancellor
Mr. Anson
Mr. Phillips
Mrs. Lomax
Miss Peirson
Mr. MacAuslan
Mr. Francis
Mrs. Chaplin

PUBLIC EXPENDITURE CABINET: EFFECT OF INFLATION ON DSS PROGRAMME

1. You asked for a note for tomorrow's Cabinet on the effect of higher inflation on the DSS programme. This can either be expressed in terms of increases in this Survey above the baseline, or as the cost of paying higher benefit rates in 1990-91 and later years over the cost of continuing to pay at April 1989 rates.

Survey comparison

2. The first calculation is based on the change in the economic assumptions used in the 1989 Survey, compared with those used last year. The inflation assumptions underlying the 1988 Autumn Statement and those underlying the 1989 Statement are set out below.

1988 Autumn Statement

	1990-91	1991-92	1992-93
RPI, % uprating in April	5.5	4.0	
Rossi, % uprating in April	5.0	4.0	

1989 Autumn Statement

	1990-91	1991-92	1992-93
RPI, % uprating in April	7.6	6.5	3.0
Rossi, % uprating in April	5.2	4.5	3.0

The cost of the move from the 1988 assumptions to those of 1989 is estimated as :-

	1990-91	1991-92	1992-93
Cost (£ million)	493	1483	1836

Full cost comparison

3. The cost of paying higher benefit rates from April 1990, by comparison with continuing to pay recipients at the April 1989 rates, has been estimated as :-

	1990-91	1991-92	1992-93
Cost (£ million)	2700	2850	2950

Philip Hamshare

P.H.HAMSHARE

108/G nw/mc/3.14.11

FROM: N P WILLIAMS (MG1)
DATE: 14 NOVEMBER 1989
x5561

MARKETS

1. MISS O'MARA

2. CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Scholar
Mr Peretz
Ms Ryding

PUBLIC EXPENDITURE CABINET: MARKETS

I attach a short summary of market developments since the Budget.

N P WILLIAMS

MARKET DEVELOPMENTS SINCE THE MARCH 1989 BUDGET

The Budget was interpreted as a cautious one and was well received by the markets.

Budget Day 14 March

Base rates	ERI	£/$	£/DM
13%	96.1	1.7227	3.2025

But by May, the dollar was rising strongly (moving above DM2.00) and worries about inflationary pressures re-emerged. Base rates were therefore raised 1% on 24 May.

24 May

14%	93.1	1.5695	3.1558

Sterling subsequently came under intermittent pressure amid worries about the growing trade deficit, uncertainty about the Government's exchange rate policy and expectations of increases in European interest rates. The authorities met this initially by large scale intervention, as necessary (the reserves fell by an underlying $2,236 million in June and intervention at the end of September was both heavy and overt). But sterling continued to weaken and pressure for a rise in domestic interest rates increased. As soon as the Germans raised their rates by 1% on 5 October (followed by most other European countries), the UK therefore did the same.

5 October

15%	91.6	1.6195	3.0325

Despite this increase, sterling fell through DM3.00 the following week and having passed this psychological barrier, moved down further with the dollar after the Wall Street fall to DM2.92½ on

16 October. It then began to recover and by the London close on 26 October had reached:

26 October

15%	90.1	1.6075	2.9674

Mr Lawsons's resignation prompted a sharp reaction and the rate touched lows of $1.56 and DM2.88 in the Far East on 27 October. Short-term interest rates briefly reached 15¾% and foreign exchange intervention was heavy. (The reserves in October fell by a record underlying $2,895 million.) However, the markets have now steadied and short-term interest rates have come back to 15% or just under.

14 November

15%	89.1	1.5815	2.9308

KEY EXCHANGE AND INTEREST RATES

	£/$	£/DM	£ERI	Base Rates
1979 Election (3/5)	2.0759	3.945	107	12
1983 Election (9/6)	1.583	4.05	110.5	10
1985 All-time low against $ (26/2)	1.0357	3.6121	90.9	14
1985 Plaza (20/9)	1.3675	3.9063	104.4	11.5
1987 Louvre (20/2)	1.5283	2.7914	85.6	11
1987 Election (9/6)	1.656	2.9758	91.1	9
1987 Black Friday (16/10)	1.6865	2.9881	91.5	10
1988 Budget (15/3)	1.858	3.0889	96.2	9
1988 Interest rate low (18/5)	1.8587	3.1728	97.6	7.5
1988 Autumn Statement (1/11)	1.7637	3.1606	95.9	12
1989 Budget (14/3)	1.7227	3.2025	96.1	13
1989 (14/11)	1.5815	2.9308	89.1	15
Highs	2.465 (24 Oct 1980)	5.07 (16 Feb 1981)	131.9 (28 Jan 1981)	17 (15 Nov 1979)
Lows	1.0357 (26 Feb 1985)	2.7349 (28 Jan 1987)	83.7 (8 Oct 1986)	7.5 (17 May 1979)

OFFICIAL RESERVES

$mn	Underlying change	Total change	Level of reserves at end-month
1989:			
January	+ 330	+ 20	51,705 (1)
February	+ 29	- 22	51,683
March	- 1,196	- 1,227	50,456 (46,931) (2)
April	+ 215	+ 325	47,256
May	- 739	- 1,169	46,087
June	- 2,236	- 2,422	43,665
July	+ 67	- 34	43,631
August	- 405	- 423	43,208
September	- 142	- 332	42,876
October	- 2,895	- 3,195	39,681

(1) Record high
(2) After revaluation

cst.ps/11nl9.11/drft

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FROM: CHIEF SECRETARY
DATE: 9 November 1989

PRIME MINISTER

SCIENCE & TECHNOLOGY

SCIENCE AND TECHNOLOGY

You and other members of ES(T) may wish to know the outcome of the bilateral agreements I have reached with colleagues for Science **and Technology expenditure.**

Total spending on civil Science and Technology

2 **The attached table summarises the results. It includes the** UK's contribution to European Community Research and Development spending, which is part of total UK public expenditure. Total **civil spending rises by 6.2 per cent between 1989-90 and 1990-91** in cash terms.

3 This includes launch aid which falls by £20 million between 1989-90 and 1990-91, and falls off in later years. This is by definition near market research and, as in last year's report, the total excluding launch aid is also shown.

4 The totals for 1990-91 and subsequent years reflect savings in grants paid to universities, made possible by the introduction of an 80 per cent discount on their rates bills. As a result the science and technology totals are £28 million a year lower than they otherwise would be, but there should be no effect on the amount of research work.

5 If the totals are adjusted to exclude launch aid and the rates change, the increase between 1989-90 and 1990-91 would be 8.1 per cent. We will need to give due weight to these factors when presenting our plans.

6 The cash plans for 1991-92 and 1992-93 imply that total civil science and technology funding may fall in real terms. These **plans will be reconsidered in next year's Survey.**

Education and Science

7 A further increase of 8 per cent has been agreed for the DES science budget in 1990-91. Taken with the addition of over £100 million agreed for 1990-91 in the 1988 Survey, this leads to growth of 25 per cent in the two years since 1988-89. The Advisory Board for the Research Councils will, as usual, advise which priority research projects ought to be supported from the new budget.

Environment

8 I have agreed to provision for more environmental work. The increases for DOE will pay for establishing a Climate Change Centre as well as other research. Room has been made within the DTI's programme for most of the UK's contribution to the Earth Remote Sensing satellite II; the equipment for it will be paid for from the DES science budget. The settlement with ODA will allow for increased assistance for forestry, biodiversity and other environmental research in developing countries. There are also some increases in D.Energy's programme for research into renewable energy sources and climatic change.

Agriculture departments

9 The reviews of near market agricultural Science and Technology spending are now concluded. No further savings were identified but the withdrawal from funding near market work will be complete by 1991-92. I have agreed increases for the agricultural departments in each year, as the net effect of small savings on technology transfer, higher internal and external costs of research, and additional work on food safety.

Department of Trade and Industry

10 Despite provision for the ERS II satellite there were net reductions in the DTI programme as a result of savings on innovation, consultancy and other services.

Conclusion

11 In this year's Survey there has been a reduction in the DTI programme, though there have been no net savings in the

agriculture departments. Within total civil spending the shift towards basic and strategic science has continued and we have built on the real increases agreed in the 1988 Survey. We have also provided for additional work on the environment. I believe we will be able to present these changes positively.

12 I am sending copies of this to the members of E(ST), Sir Robin Butler and Mr Fairclough at the Cabinet Office.

NORMAN LAMONT

cc:
Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mrs Case
Mrs Lomax
Mr Mountfield
Mr Robson
Mr I Wilson
Miss Barber
Mr Burr
Mr Farthing
Mr Fellgett
Mr MacAuslan
Mr Mercer
Mr Mortimer
Mr Revolta
Mr M Williams
Mr Wood
Mr Woolf
Mr Perfect
Mr J Stevens
Mr Fowler
Mr Tyrie

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SCIENCE AND TECHNOLOGY EXPENDITURE BY DEPARTMENT

09-Nov-89

£ million

	1989-90 ESTIMATED OUTTURN	1990-91 BASELINE	1990-91 AGREED BID	1991-92 BASELINE	1991-92 AGREED BID	1992-93 BASELINE	1992-93 AGREED BID
Agriculture Departments	182.2	176.0	14.3	169.5	11.7	173.7	9.5
Department of Trade and Industry	443.0	469.0	-22.2	373.7	13.4	383.6	-57.0
[of which launch aid	92.0	78.2	-2.3	-24.1	22.4	-24.7	-39.5]
Department of Energy (i)	216.3	188.0	-1.5	162.0	-0.7	166.0	-9.8
Environment (inc.Ordnance Survey)	72.3	74.3	10.2	75.8	12.6	77.6	10.0
Others	224.7	232.3	9.3	241.7	7.9	247.6	3.7
Department of Education and Science	1,730.8	1,766.4	100.0	1,794.9	100.2	1,840.0	101.6
[of which: Science budget	832.6	842.7	60.0	860.1	57.0	881.7	58.0
[Universities (40% of total)	794.2	804.9	40.0	817.9	43.2	838.3	43.6]
UK contribution to EC R&D	136.8	176.6	0.0	207.5	0.0	105.3	0.0
TOTAL CIVIL SCIENCE AND TECHNOLOGY:							
CHANGES including launch aid			110.1		145.1		58.0
CHANGES excluding launch aid			112.4		122.7		97.5
LEVELS including launch aid	3,006.1	3,082.6	3,192.7	3,025.1	3,170.2	2,993.8	3,051.8
LEVELS excluding launch aid	2,914.1	3,009.4	3,121.8	3,049.2	3,171.9	3,018.5	3,116.0
Ministry of Defence	2,353.0	2,425.0	133.0	2,472.0	127.0	2,533.8	103.0
Total Science and Technology (changes)			243.1		272.1		161.0
Total Science and Technology (levels)	5,359.1	5,507.6	5,750.7	5,497.1	5,769.2	5,527.6	5,688.6

(i) The public spending figures for science after April 1990 include a fall of around £20 million as the costs of certain nuclear safety research will then be recovered from the electricity supply industry. At the same time responsibility for this spending transfers from D/Energy to the Nuclear Installations Inspectorate - part of the D/Employment Group.

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of which:				
Consumers' expenditure	6 ¾	3 ¾	1 ¼	1 ¼
General government consumption	½	- ¼	¼	½
Fixed investment	13 ¼	5 ¼	1 ¾	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ¾	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ¼	3 ¼
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	7	4 ½	1 ½	2
Balance of payments current account (£ billion)	-14 ½	-20	-15	5 ¾
Inflation				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year)[2]	7	7	5	2
Money GDP at market prices (financial year)[2]	10 ¾	8 ½	6 ¾	2 ¼
£ billion	476	517	552	
PSDR (financial year)				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

[1] *The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the last ten years, and apply to the forecasts for 1990, except for the PSDR where it applies to the forecast for 1989-90.*

[2] *The introduction of the community charge in Scotland has reduced both the GDP deflator and money GDP by about ¼ per cent from 1989-90. There will be a larger reduction in 1990-91 following the introduction of the community charge in England and Wales, which is not allowed for in this table.*

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Consumers' expenditure	6 ¾	3 ¾	1 ¼	1 ¼
General government consumption	½	- ¼	¼	½
Fixed investment	13 ¼	5 ¼	1 ¾	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ¾	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ¼	3 ¼
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	7	4 ½	1 ½	2
Balance of payments current account (£ billion)	-14 ½	-20	-15	5 ¾
Inflation				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year)[2]	7	7	5	2
Money GDP at market prices (financial year)[2]	10 ¾	8 ½	6 ¾	2 ¼
£ billion	476	517	552	
PSDR (financial year)				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

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Outcome on programmes	165.9	181.0	191.3	199.4
Reserves	[1.3]	3	6	9
Privatisation proceeds	4.25	-5	-5	-5
New Planning Total	161.7	179.0	192.3	203.4
Add LA self-financed spending	13.2	12.0	12.0	12.5
Add CG debt interest	17.3	15.5	14.0	13.5
Add other adjustments	4.1	4.5	4.0	4.5
Add back Privatisation proceeds	4.2	5	5	5
equals GGE (excl priv proceeds)	200.5	215.4	227.2	239.1
GGE (excl priv proceeds)				
% change in real terms	1.0	2.3	1.9	2.2
as % GDP	38¾	39	38¾	38½
1988 AS	39¼	39	38¾	(-)

† For 1989-90, plans are being monitored on old definition of planning total [outcome is £168.2 billion, compared with plan £167.1 billion].

Note For Survey period, there was an unpublished baseline for the new planning total, and local authority components. Only new levels for these will be published.

TABLE 3 : PUBLIC EXPENDITURE TRENDS

Real GGE (excl priv proceeds)
annual average % change

1968-78 to 1978-79	3
1978-79 to 1988-89	1¼
1988-89 to 1992-93	1¾

Ratio of GGE (excl priv proceeds) to GDP
per cent

1965-66	37¼
1975-76	48½ (post-war peak)
1978-79	43¼
1982-83	46¾ (peak under this Government)
1988-89	39

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1 Public Expenditure Plans

Main Points

1.01 Public spending (excluding privatisation proceeds) fell as a proportion of national income from nearly 47 per cent in 1982–83 to under 40 per cent last year. This ratio is expected to decline further over time, reaching by 1992–93 its lowest level since 1965.

1.02 The public expenditure planning total (on the new definition described below) has been set at £179 billion in 1990–91, including a Reserve of £3 billion. Planning totals for the following two years have been set at £192 billion and £203 billion.

1.03 In real terms, public spending excluding privatisation proceeds will rise by an average 1¾ per cent a year between 1988–89 and 1992–93, maintaining the rate of growth projected in the last Autumn Statement.

1.04 Further resources have been allocated to key priority areas. The plans allow for significant growth in health service activity, as well as the costs of the NHS review. They also provide for new initiatives to tackle homelessness, to meet the needs of the disabled and poorer families, and for substantial extra spending on the arts, higher education and science.

1.05 There will also be major increases in planned investment in road and rail, education, housing and hospitals.

1.06 These improvements have been made possible by reduced provision for some other programmes and by increased efficiency in programmes generally.

1.07 The latest forecast for the current year, 1989–90, is that the plans in the last public expenditure White Paper, Cm 621, will be exceeded by £1·1 billion, or 0·7 per cent. The public spending ratio is however expected to be 38¾ per cent, about ½ per cent lower than envisaged when the plans were set.

Public spending trends

1.08 Within the framework of the Medium Term Financial Strategy (MTFS), the Government's overall aim for public spending is that it should take a declining share of national income, while value for money is constantly improved. This leaves scope for reducing taxation when it is prudent to do so, while still maintaining a strong fiscal position.

1.09 General government expenditure (GGE), excluding privatisation proceeds, has now fallen as a share of gross domestic product from nearly 47 per cent in 1982–83 to under 40 per cent last year. In the current year, it is expected to be 38¾ per cent, lower than the 39¼ per cent previously forecast.

Table 1.1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP	General government expenditure (excluding privatisation proceeds)
	Cash (£ billion)	Real terms[1] (£ billion)	(£ billion)	(Per cent of GDP)
1963–64	11·3	94·6	31·4	36¼
1964–65	12·3	97·9	34·2	35¾
1965–66	13·6	103·7	36·6	37¼
1966–67	15·1	110·2	38·9	38¾
1967–68	17·5	124·1	41·2	42¼
1968–69	18·2	123·4	44·6	40¾
1969–70	19·3	124·3	48·0	40¼
1970–71	21·6	128·5	53·2	40¾
1971–72	24·4	132·7	59·3	41
1972–73	27·6	139·2	67·6	41
1973–74	32·0	150·6	74·9	42¾
1974–75	42·9	168·7	89·3	48¼
1975–76	53·8	168·8	111·0	48½
1976–77	59·6	164·7	129·7	46
1977–78	64·4	156·5	151·1	42¾
1978–79	75·0	164·3	173·4	43¼
1979–80	90·3	169·6	208·1	43½
1980–81	108·8	172·6	237·2	46
1981–82	121·0	175·1	260·4	46½
1982–83	133·1	179·7	284·9	46¾
1983–84	141·6	182·6	309·2	45¾
1984–85	152·6	187·4	331·1	46¼
1985–86	160·8	187·4	361·9	44½
1986–87	168·9	190·6	387·7	43½
1987–88	177·7	190·1	429·5	41¼
1988–89	185·7	185·7	476·1	39
1989–90	200·5	187·4	517	38¾
1990–91	*215·4*	*191·7*[2]	*552*[2]	*39*[2]
1991–92	*227·2*	*195·4*[2]	*587*[2]	*39¾*[2]
1992–93	*239·1*	*199·6*[2]	*621*[2]	*38½*[2]

[1] *Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by 7 per cent in 1989–90, and by 5, 3½ and 3 per cent respectively in the years 1990–91 to 1992–93.*

[2] *To avoid discontinuities in the series, GDP at market prices and the GDP deflator do not take account of the effect on GDP of the change from rates to the community charge—see paragraph 2.xx.*

1.11 After rising slightly from the unexpectedly low figure this year, the downward trend in the ratio is expected to continue over time, as illustrated in Chart 1.1 and Table 1.1. GGE is projected at £210 billion in 1990–91 (£5 billion higher than in last year's Autumn Statement) and £222 billion in 1991–92. The ratios for those years are unchanged from those in the previous Autumn Statement—39 per cent and 38¾ per cent respectively (see Table 1.2). By 1992–93, the ratio should decline to 38½ per cent, its lowest level since 1965, and 8 percentage points lower than 10 years earlier.

Chart 1.1 General government expenditure (excluding privatisation proceeds)

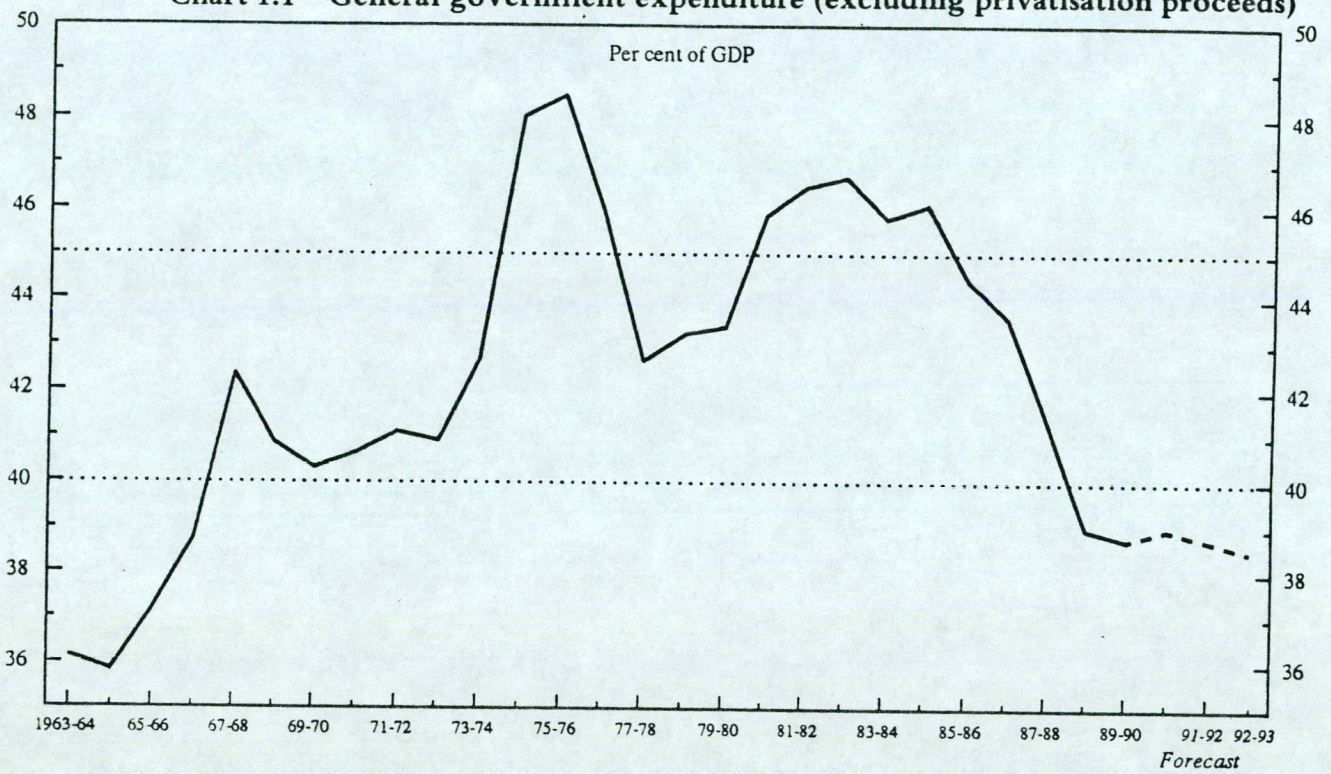


Table 1.2 General government expenditure[1]; plans and outturn

per cent of GDP

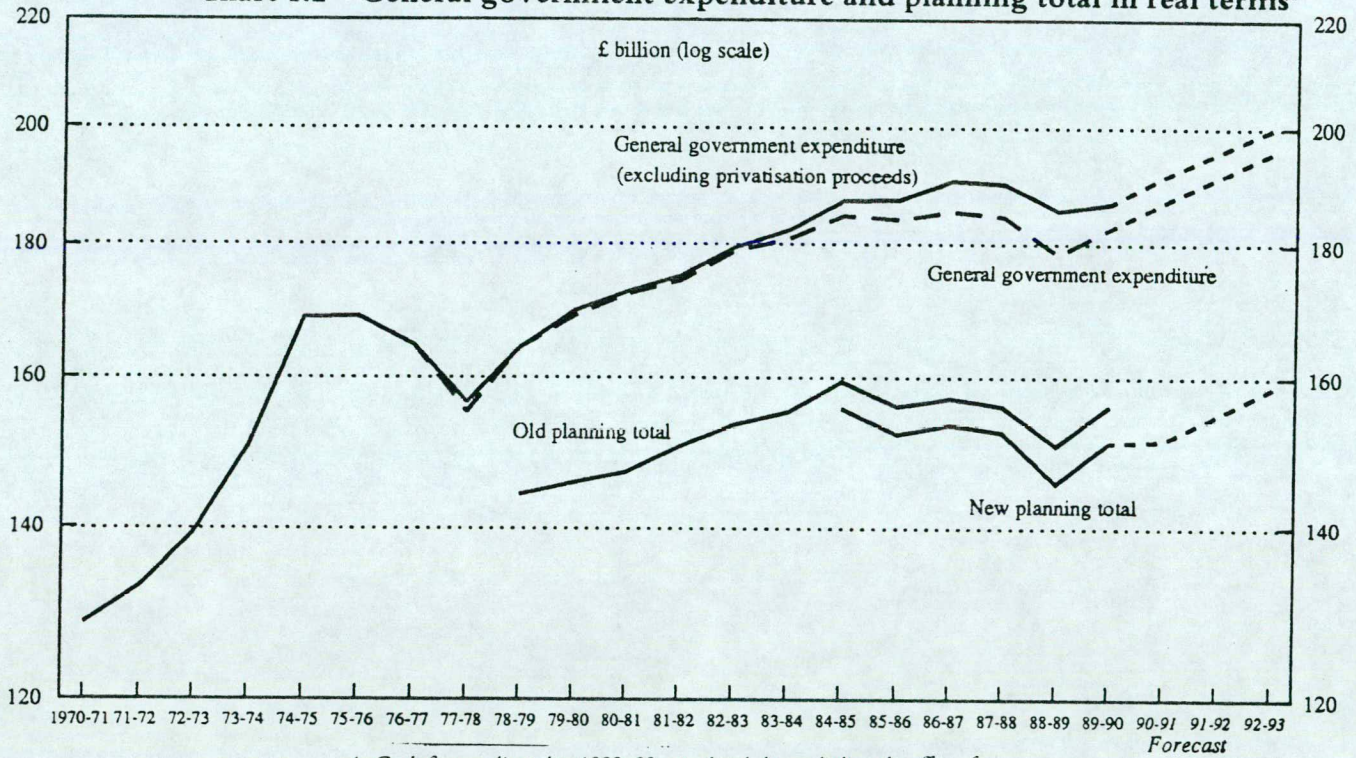
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93
March 1985 FSBR[2]	**46¾**	45¾	44	43				Plans	
January 1986 White Paper (Cmnd 9702)	**46¼**	**45**	44	43	42¼		**Outturn**		
January 1987 White Paper (Cm 56)	**46¼**	**44¾**	**44½**	44	42¾	42¼			
January 1988 White Paper (Cm 288)	**46¼**	**44½**	**44**	**42½**	42	41¾	41¼		
January 1989 White Paper (Cm 621)	**46¼**	**44½**	**43¾**	**41¾**	**39¾**	39¼	39	38¾	
This Autumn Statement	**46¼**	**44½**	**43½**	**41¼**	**39**	**38¾**[3]	39[4]	38¾[4]	38½[4]

[1] *Excluding privatisation proceeds.* [2] *Financial Statement and Budget Report* [3] *Estimated.* [4] *See footnote 2 to Table 1.1.*

1.12 Chart 1.2 and Table 1.1 show the trend of public spending in real terms. GGE excluding privatisation proceeds grew between 1978–79 and 1988–89 on average by around 1¼ per cent, compared with nearly 3 per cent in the decade to 1978–79.

1.13 Between 1988–89 and 1992–93, this real growth rate is expected to average around 1¾ per cent. This continues, for the period to 1992–93, the average real growth projected in the last Autumn Statement between 1988–89 and 1991–92.

Chart 1.2 General government expenditure and planning total in real terms[1]



1. Cash figure adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnote 2 to Table 1.1).

The new spending plans

1.14 The trends above are described in terms of GGE which is the main expenditure aggregate in the MTFS, and is a measure of the amount which has to be raised by taxation or borrowing to finance central and local government expenditure, including debt interest.

1.15 For the purpose of planning and control, the Government uses a narrower measure—the planning total. This will in future be defined to cover generally only those areas of spending for which central government is responsible. It will thus include central government support for local authorities through grants, credit approvals, and non-domestic rate payments; but it will exclude the spending which local authorities finance from their own resources (including the community charge) and their inflow of capital receipts. It will still include central government's own spending, the financing requirements of public corporations, privatisation proceeds, and a Reserve. The new planning total, and the difference between it and

the old planning total, is explained in more detail in the Annex to this Chapter. The change of definition coincides with the introduction of new arrangements for local government finance, described in paragraph 1.60 below.

1.16 The planning totals for the three Survey years, 1990–91 to 1992–93, have been set on this new definition at £179 billion, £192 billion and £203 billion respectively.

1.17 Table 1.3 shows the Government's expenditure plans for these three years in greater detail. It sets them in the context of projections of GGE and the estimated outturn of the new planning total from 1984–85 to 1989–90. Central government's own spending is shown separately by department. Table 1.12 gives the same information in real terms.

Table 1.3 Planning total and general government expenditure[1, 2, 3]

£ million

Outturn

	1984–85	1985–86	1986–87	1987–88	1988–89
Central government's own expenditure—	**93 188**	**99 551**	**106 104**	**111 188**	**116 330**
of which:					
Ministry of Defence	17 108	17 929	18 168	18 853	19 070
FCO—Diplomatic Wing	593	608	648	687	739
FCO—Overseas Development Administration	1 175	1 211	1 271	1 291	1 507
Ministry of Agriculture, Fisheries and Food[4]	1 808	2 266	1 578	1 790	1 559
Trade and Industry[5]	1 164	1 075	1 848	944	1 685
Export Credits Guarantee Department	532	345	288	151	109
Energy[6]	484	860	894	553	538
Department of Employment	3 028	3 156	3 588	3 636	3 591
Department of Transport	1 154	1 218	1 269	1 379	1 405
DOE—Housing	1 145	1 188	1 305	1 303	1 376
DOE—Other environmental services and Ordnance Survey[7]	285	285	328	473	529
DOE—Property Services Agency[8]	0	0	0	0	0
DOE—Local Government[9]	0	0	0	0	0
Home Office (including the Charity Commission)	920	999	1 072	1 184	1 364
Lord Chancellor's and Law Officers' departments[10]	512	573	655	777	902
Department of Education and Science	2 247	2 356	2 455	2 696	2 961
Office of Arts and Libraries	270	288	343	368	414
Department of Health and Office of Population Censuses and Surveys	13 435	14 200	15 209	16 672	18 431
Department of Social Security[11]	35 699	38 741	41 700	43 578	44 473
Scotland	2 959	3 152	3 319	3 466	3 827
Wales	1 249	1 333	1 453	1 546	1 730
Northern Ireland	3 615	3 860	4 202	4 471	5 142
Chancellor of the Exchequer's departments	2 625	2 860	3 201	3 455	3 692
Cabinet Office, Privy Council Office and Parliament	206	224	232	255	278
European Communities	974	822	1 079	1 661	1 006
Central government support to local authorities[3]	**30 707**	**31 083**	**33 286**	**35 654**	**36 450**
Financial requirements of public corporations	**4 981**	**2 634**	**1 038**	**793**	**−183**
Reserve					
Privatisation proceeds	**−2 050**	**−2 707**	**−4 460**	**−5 140**	**−7 065**
Adjustment[12]					
New planning total[13]	**126 827**	**130 561**	**135 968**	**142 495**	**145 532**
Total local authority expenditure[14]	38 589	39 417	41 996	44 653	46 641
Less items included in the planning total	30 707	31 083	33 286	35 654	36 450
Local authority self-financed expenditure	7 881	8 334	8 711	8 999	10 191
Central government debt interest[14]	14 313	16 052	16 447	17 032	17 380
Accounting adjustments	1 532	3 129	3 355	4 007	5 283
General government expenditure	**150 553**	**158 077**	**164 481**	**172 533**	**178 586**

[1] *The rounding and other conventions used in this table and in Tables 1.4, 1.6, 1.7, 1.10, 1.11, 1.13 and 1.14 are as follows: plan figures are rounded to the nearest £10 million, except for social security, the planning and spending sector totals (except public corporations), local authority expenditure and general government expenditure which are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Total local authority expenditure, local authority self-financed expenditure, debt interest and other national accounts adjustments for future years are rounded to the nearest £500 million. Outturn figures for 1989–90 have also been rounded to reflect their provisional nature. The changes and totals are based on the unrounded figures. They may therefore differ from the changes and sums of the rounded figures. Some figures may be subject to detailed technical amendment before the publication of the 1990 public expenditure White Paper.*

[2] *Changes in the treatment of certain elements of expenditure—other than changes arising from the move to the new planning total and minor changes of classification and allocation—are described in footnote 1 to table 1.A.2.*

[3] *Proxies have been used for some of the new local authority elements of the planning total for years up to 1989–90, within DOE and other departmental programmes: see para 1.A.6.*

[4] *Includes Intervention Board for Agricultural Produce and Forestry Commission.*

[5] *Includes Office of Fair Trading and Office of Telecommunications.*

Estimated Outturn	New Plans			
1989–90	1990–91	1991–92	1992–93	
126 500	137 760	144 830	151 930	**Central government's own expenditure—**
				of which:
20 310	21 200	22 320	23 410	Ministry of Defence
840	890	950	960	FCO—Diplomatic Wing
1 570	1 680	1 770	1 840	FCO—Overseas Development Administration
1 560	1 980	2 190	2 300	Ministry of Agriculture, Fisheries and Food[4]
1 230	1 250	1 120	1 030	Trade and Industry[5]
340	210	60	−30	Export Credits Guarantee Department
460	440	410	400	Energy[6]
3 530	3 470	3 350	3 380	Department of Employment
1 970	2 280	2 390	2 490	Department of Transport
1 540	2 230	2 560	2 650	DOE—Housing
550	700	720	720	DOE—Other environmental services and Ordnance Survey[7]
0	−70	−170	−260	DOE—Property Services Agency[8]
0	40	40	50	DOE—Local Government[9]
1 670	1 910	1 870	1 890	Home Office (including the Charity Commission)
1 120	1 270	1 380	1 470	Lord Chancellor's and Law Officers' departments[10]
4 310	4 800	4 940	5 080	Department of Education and Science
440	490	520	550	Office of Arts and Libraries
20 010	22 040	23 350	24 480	Department of Health and Office of Population Censuses and Surveys
47 200	51 970	55 670	59 200	Department of Social Security[11]
4 010	4 330	4 510	4 640	Scotland
1 890	2 090	2 170	2 230	Wales
5 520	5 700	5 980	6 170	Northern Ireland
4 140	4 530	4 820	5 050	Chancellor of the Exchequer's departments
320	350	360	370	Cabinet Office, Privy Council Office and Parliament
2 030	1 990	1 550	1 850	European Communities
38 100	41 880	43 440	44 350	**Central government support to local authorities**[3]
1 540	1 490	2 320	2 360	**Financial requirements of public corporations**
	3 000	6 000	9 000	**Reserve**
−4 250	−5 000	−5 000	−5 000	**Privatisation proceeds**
−200				**Adjustment**[12]
161 700	**179 140**	**191 600**	**202 600**	**New planning total**[13]
51 300	*53 500*	*55 500*	*57 500*	Totallocalauthorityexpenditure[14]
38 100	*41 880*	*43 440*	*44 350*	Less items included in the planning total
13 200	*12 000*	*12 000*	*12 500*	Local authority self-financed expenditure
17 300	*15 500*	*14 000*	*13 500*	Central government debt interest[14]
4 100	*4 500*	*4 000*	*4 500*	Accounting adjustments
196 300	**210 400**	**222 200**	**234 100**	**General government expenditure**

[6] *Includes Office of Gas Supply and, from 1990–91 Office of Electricity Regulation.*
[7] *Includes Office of Water Services and Property Agency up to 1989–90. From 1990–91 includes Property Holdings.*
[8] *From 1990–91, PSA Services.*
[9] *DOE-local government includes Revenue Support Grant and National Non-Domestic Rate payments in England and certain grants associated with the change from rates to the new system of local government finance (see footnote 5 to Table 1.5). (Comparable items are included in the figures for Scotland and Wales).*
[10] *Includes the Crown Prosecution Service, the Crown Office, the Northern Ireland Court Service, the Serious Fraud Office, the Land Registry, the Public Record Office and the Treasury Solicitor's Department.*
[11] *Includes grants for rate rebates up to 1989–90, and Community Charge benefit grant from 1989–90.*
[12] *An adjustment for the difference between the assessment of the likely outturn for 1989–90 and the sum of the other items shown.*
[13] *Plans for years up to 1989–90 were set using the old planning total (see paragraph 1.x): outturn data on this basis for 1988–89 and 1989–90 is shown in Tables1.13–1.15.*
[14] *Local authority debt interest payments are included in total local authority expenditure.*

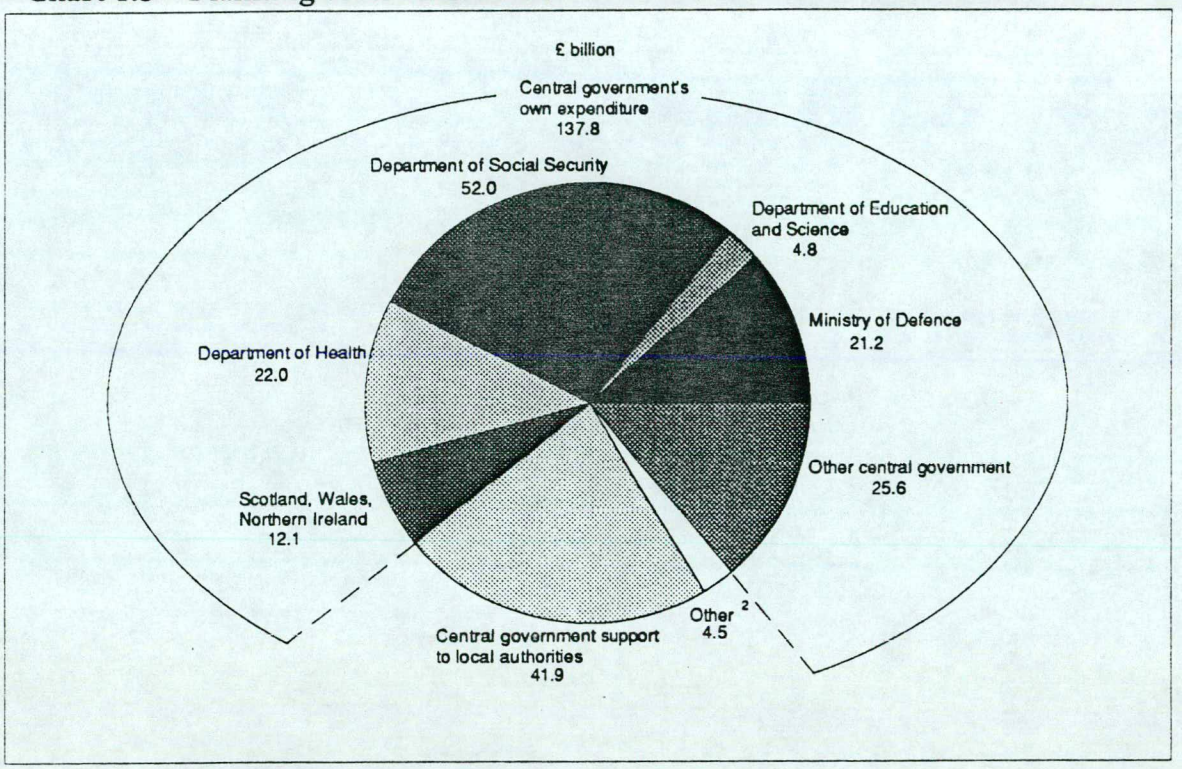
Table 1.4 Public expenditure planning total by department[1]

	£ million					
	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430
FCO—Diplomatic wing	739	840	100	890	940	970
FCO—Overseas Development Administration	1 541	1 620	80	1 710	1 810	1 880
Ministry of Agriculture, Fisheries and Food	1 636	1 540	−90	1 840	2 050	2 140
Department of Trade and Industry	1 319	1 160	−160	1 280	1 030	1 160
Export Credits Guarantee Department	109	340	230	240	70	−30
Department of Energy	−419	150	570	−160	670	670
Department of Employment	3 854	3 880	30	3 790	3 680	3 720
Department of Transport	2 743	3 600	860	4 230	4 490	4 600
DOE—Housing	2 638	2 560	−80	6 270	6 720	6 920
DOE—Other environmental services and Ordnance Survey	882	1 320	440	1 380	1 270	1 220
DOE—Property Services Agency				−30		−10
DOE—Local government	18 782	19 480	690	20 460	21 250	21 560
Home Office (including the Charity Commission)	3 710	4 280	570	4 840	5 010	5 160
Lord Chancellor's and Law Officers' Departments	902	1 120	220	1 270	1 380	1 470
Department of Education and Science	4 270	5 710	1 440	6 590	6 770	6 920
Office of Arts and Libraries	431	460	30	490	520	540
Department of Health and Office of Population Censuses and Surveys	18 488	20 130	1 640	22 180	23 480	24 610
Department of Social Security	49 430	52 600	3 100	55 600	59 900	63 500
Scotland	8 464	8 980	520	9 200	9 670	9 920
Wales	3 567	3 860	290	4 280	4 390	4 490
Northern Ireland	5 469	5 760	290	5 790	6 040	6 240
Chancellor of the Exchequer's departments	3 685	4 140	450	4 610	4 880	5 140
Cabinet Office, Privy Council Office and Parliament	278	320	40	370	380	400
European Communities	1 006	2 030	1 020	1 870	1 670	1 990
Reserve				3 000	6 500	10 000
Privatisation proceeds	−7 065	−4 250	2 820	−5 000	−5 000	−5 000
Adjustments		−200	−200			
New planning total	**145 532**	**161 700**	**16 200**	**179 000**	**192 300**	**203 400**

[1] *See footnotes to Table 1.3.*

1.18 Table 1.4 gives a departmental breakdown of the new planning total with central government support to local authorities and the financing requirements of public corporations attributed to their respective departments. Chart 1.3 shows the relative size of the main elements of the new planning total (excluding privatisation proceeds) in 1990–91.

Chart 1.3 Planning total[1] in 1990–91



[1] Excluding privatisation proceeds.
[2] Reserve and financial requirements of public corporations.

1.19 Previous public expenditure plans were set in terms of the old definition of the planning total. It is therefore possible to compare the new plans with previous plans only in those areas where the two definitions overlap, for example for central government's own expenditure. The comparison is not possible for the local authority elements in the plans. The differences between the new plans and previous plans, in so far as the comparison can be made, are shown in Tables 1.10, 1.11 and 1A.1. For 1988–89 and 1989–90, where the plans were both set and monitored on the old planning total basis, a comparison of plan and estimated outturn is given in Tables 1.13 and 1.14.

The new plans—departmental detail

1.20 Over the last five years, substantial growth in spending on the Government's priorities has been made possible by declining requirements elsewhere. Central government expenditure on transport, housing, environmental services, law and order, education and health has risen by over 15 per cent in real terms, while the financial requirements of public corporations, the numbers of unemployed people on social security benefits, and debt interest payments have fallen.

1.21 The new plans show further real growth in spending on priority programmes. [An extra £1½ billion has been allocated to the NHS in the

UK in 1990–91, and a further £2 billion in 1991–92; spending on the NHS in 1990–91 will be about £2½ billion higher than in 1989–90. This provides for increasing levels of activity in the NHS as well as for implementing the proposals in "Working for Patients" (Cm 555) which will improve the quality of health care, by better management of the NHS. There is more help for disabled people, lone parents and poorer families.

1.22 Expenditure on trunk roads and motorways is planned to double between last year and 1992–93, allowing a significant start to be made on the expanded programme of road building announced in the White Paper, "Roads for Prosperity". Substantial extra sums have been provided for transport industries to expand capacity, relieve congestion and improve safety and quality of service. Provision is made for a new initiative to alleviate homelessness, and for a major expansion in the supply by housing associations of subsidised homes. The plans provide for substantial investment in the fabric and equipment of schools and colleges, and there is extra provision of £¼ billion a year for loans and awards to students. There are also significant additions for environmental research and protection.

1.23 Central government support for local authority spending is planned to be substantially higher next year than this, reflecting in particular higher proposed levels of Aggregate External Finance announced in July and the transitional relief for community charge payers announced in October.]

1.24 The following paragraphs briefly describe the new plans.

Defence

1.25 The Government's aims for defence are to ensure the security of the nation and maintain its freedom, in particular by maintaining the effectiveness of its contribution to the NATO alliance.

1.26 The plans for 1990–91 and 1991–92 are consistent with last year's three year settlement. The defence budget will rise to £23·4 billion in 1992–93. The provision will continue to provide a firm framework within which to plan for the UK's defence commitments over the next three years.

1.27 UK defence capability will continue to benefit from increased efficiency in the use of resources and from measures taken to increase value for money from the equipment programme.

Foreign and Commonwealth Office (Diplomatic Wing)

1.28 The FCO is responsible for the overseas representation of UK interests. The Diplomatic Wing also provides grants to organisations outside Government, including the British Council and the BBC external services. Increased resources are being provided for additional visa work, for UK contributions to UN peacekeeping and for scholarships and exchanges administered by the British Council. There is also extra provision for moving some FCO and British Council staff away from London.

Overseas Development Administration

1.29 Most of the aid programme is spent on bilateral aid, focusing on long term development; emergency relief is also provided. The remainder is channelled through various international agencies. Aid is increasingly used to assist economic reform, particularly in sub-Saharan Africa.

1.30 Within overall provision for ODA of £1,710 million in 1990–91, the net aid programme is now set at £1,590 million. This will give an 11 per cent cash increase over 1989–90 plans—a significant increase in real terms. The aid programme will increase to £1,680 million in 1991–92 and to

£1,750 million in 1992–93. There is provision for increases in bilateral aid, particularly to support economic reform in Nigeria; and for protecting the environment in developing countries, especially by forestry conservation. There is also provision for a know-how fund for Poland.

Agriculture

1.31 The Department's aim is to help the agriculture, fisheries and food industries to meet the demands of UK consumers and of export markets. Spending on agriculture is largely determined by the Common Agriculture Policy (CAP) of the European Community. The Government's objective in Community discussions is to bring spending under control and to continue to promote a more efficient and competitive agricultural industry. Provision for market support reflects progress in reforming the CAP, the effect of continued world cereals shortages on prices and expectations of reduced intervention.

1.32 Within the domestic agriculture programme, there are increases for further work to improve flood defences, especially along the East Coast, and for new measures to ensure food safety. Additional provision has been made for increased take up of the set-aside scheme to encourage reduction of agricultural surpluses; for a pilot scheme to reduce the use of nitrates in sensitive areas; for compensation to farmers whose animals are slaughtered because of infection by salmonella or bovine spongiform encephalopathy; and for departmental administration. There are reductions in the net cost of chargeable advisory services and of the registration of pesticides and veterinary medicines; savings from changes to the brucellosis testing programme; and reductions in the Government's contribution to the administrative costs of the Potato Marketing Board.

Trade and Industry

1.33 The prime aim of DTI is to encourage wealth creation through a competitive and open economy. The expenditure of the DTI has fallen since 1978–79 as a result of privatisation, and in response to the increased profitability of industry and the Government's policy of reducing intervention in business. Further reductions have been made to reflect revised forecasts of demand for DTI services. These include reduced levels of provision for Regional Development Grants (following the scheme's closure in 1988) and the Business Development Initiative. Net provision for English Estates has also been reduced in the light of higher forecast receipts. There is an increase in support for UK participation in space projects, including a further European Space Agency earth observation satellite.

Export Credits Guarantee Department

1.34 The Department aims to support UK exports by providing credit insurance facilities. In order to match the support given by other major trading nations, ECGD supports the provision by banks of export finance at fixed rates of interest; it pays the banks the difference between the cost of their funds and the fixed rate they offer to exporters. The new plans reflect the higher estimated cost of interest support and of the scheme offering insurance for exporters against exchange rate movements between the time of tendering and the signing of contracts.

Energy

1.35 The department's aim is to help ensure that the nation's needs for energy are met in a manner which makes the best use of resources. There are increases in the provision for handling nuclear waste, for energy efficiency, and for research into renewable energy sources. The plans for 1990–91 and 1991–92 reflect the disappearance from the public expenditure figures (following the privatisation of the electricity industry in England and Wales) of the substantial net repayments of external finance by the industry.

Employment

1.36 The Department's main programmes are directed at training the long term unemployed and young people. The new plans include total provision of £2 billion a year for the Employment Training Scheme and the Youth Training Scheme. Lower unemployment and the falling numbers of young people have enabled lower planned expenditure to be combined with higher standards of training. Expenditure is expected to be nearly 45 per cent higher in real terms in 1990–91 than in 1978–79. There is increased provision to help people into jobs, through investment in the Employment Service, targeted measures for the disabled, and further school/industry Compacts for young people. Funding is also being made available for launching the Training and Enterprise Councils.

Transport

1.37 The Department's aims are to provide a cost-effective roads and public transport system. Expenditure on trunk roads and motorways will double from £1,000 million last year to almost £2,000 million in 1992–93. Planned expenditure on roads for 1990–91 is 39 per cent higher than plans for 1989–90 and 80 per cent higher than for 1988–89. Increases of over £320 million in 1990–91 and 1991–92 have been allocated for new road construction and to prepare for motorway widenings and other major new schemes set out in the White Paper, "Roads for Prosperity", published in May 1989. There are increases of £60 million in 1990–91 and £90 million in 1991–92 for capital maintenance of roads and bridges, [enabling the road maintenance backlog to be eliminated by the end of 1992–93]. An extra £25 million in 1990–91 and £30 million in 1991–92 has been provided for current maintenance.

1.38 The Department's programme also includes credit approvals and capital grants in support of local authorities' capital expenditure on roads and other transport facilities. These have been set at a level which should enable local authorities to undertake construction of a light railway in Greater Manchester, to expand Manchester airport's terminal capacity to handle up to 18 million passengers a year by 1993 and to carry out a £2 billion programme of road improvements over the period 1990–91 to 1992–93. Transport Supplementary grant will be nearly 15 per cent higher in 1990–91 than in 1989–90.

1.39 The departmental totals also include the external financing requirements of British Rail, London Regional Transport and the Civil Aviation Authority. British Rail's external finance limit is increased by £219 million in 1990–91 and £248 million in 1991–92. This covers provision for investment in 1990–91 of £1,110 million, 88 per cent higher than in 1988–89; there are substantial increases for investment in rail services for the Channel Tunnel, in improvements in the quality of service on Network South East and in modernising the freight sector. London Regional Transport's external finance limit is increased by £165 million in 1990–91 and £250 million in 1991–92, with provision for investment in 1990–91 of £570 million. This will fund further measures to help deal with congestion and improve safety, in particular on London Underground. The Civil Aviation Authority's investment programme includes provision for a new air traffic control centre to increase capacity over England and Wales by 40 per cent.

Housing

1.40 The Government's housing policy aims include increasing home-ownership, giving greater choice to those wishing to rent accommodation and encouraging local authorities to ensure the provision, from a range of

suppliers, of adequate housing in their areas. The new plans provide for support by the Housing Corporation for the provision by housing associations of new homes at affordable rents at a level £370 million (46 per cent) higher in 1990–91 than in 1989–90. There is provision of £¼ billion over the three years to 1992–93 for a new initiative to help housing associations and local authorities relieve homelessness.

1.41 The new plans include provision of £1,810 million in 1990–91 for credit approvals and capital grants in support of local authorities' capital expenditure on renovation of their housing stock and the treatment of housing defects.

Other Environmental Services

1.42 This programme covers a wide range of services, including environmental protection, conservation, inner city regeneration and recreational services. There is provision for an extra £20 million a year for the countryside and environmental protection, which will mean that provision for environmental research is 35 per cent higher in 1990–91 than in 1989–90. A new Climate Change Centre will be set up, and the work of the Pollution Inspectorate expanded. There is also an extra £15 million a year for historic royal palaces, the Royal Parks and English Heritage. An additional £260 million in 1990–91 for the inner cities includes provision for further investment by Urban Development Corporations, in particular in transport links in London's Docklands.

1.43 The new plans provide £200 million a year for credit approvals to help local authorities to meet other environmental expenditure and in particular the capital costs of dealing with waste disposal on landfill sites. Increases in gross spending by the new towns on site servicing are more than offset by higher new town capital receipts.

Home Office and legal departments

1.44 The aims here are to combat crime by providing adequate resources for the police, prisons, courts and probation service. There is £80 million extra provision in 1990–91 for maintenance, repair and upgrading of prisons. The new plans also provide for an expansion of the programme to divert offenders from custody, for initiatives to combat drug abuse, and for an improved service by the Passport Department. Home Office central government expenditure in 1990–91 is planned to be £550 million higher than its 1988–89 level (25 per cent in real terms). Provision for grants to local authorities will be £340 million higher in 1990–91 than in 1989–90; this will allow in particular for an additional 1,100 police officers.

1.45 There are additions of £80 million in 1990–91 for the legal departments; this includes extra provision for the Government's civil law and competition policy initiatives, legal aid, and the Serious Fraud Office.

Education and Science

1.46 The Government's aims, as set out in the 1988 Education Reform Act, are to raise standards of achievement at all levels of ability, to increase parental choice, and to widen access to further and higher education and make them more responsive to the needs of the economy. Central government support for local authorities' current expenditure on schools is provided through Aggregate External Finance (in England and Wales) and Aggregate Exchequer Grant (in Scotland) (see paragraph 1.65 below). Provision for credit approvals within the Department of Education's programme will allow a substantial programme of local authority capital expenditure on schools and further education colleges. There is also extra provision for grant-maintained Schools and for City Technology Colleges.

1.47 In higher education, participation is expected to rise from its present record level. The number of first degrees awarded is projected at around 140,000 in 1991, more than 30 per cent up on a decade earlier. More money has been made available for universities, polytechnics and colleges both to finance the costs of teaching these extra students and to provide for increased spending on maintenance and equipment. £¼ billion extra has been provided in 1990–91 for support for students; this covers both provision for the Government's proposals for loans to top up students' income, and increased provision for student awards. Within the total funding provided for higher education, a greater proportion will in future be channelled through student fees paid by local authorities, with a smaller proportion coming from central grants to institutions. This is intended to make the provision of higher education more responsive to student demand. As a result, sums rising to about £½ billion a year will be transferred from central government's own expenditure to grants to local authorities. Substantial extra spending on the science budget is planned (see paragraph 1.76).

Arts and Libraries

1.48 The aim is to encourage public appreciation of the arts, and the development and preservation of our cultural heritage. The three year settlement has been renewed, with an additional £33 million in 1990–91—an increase of 12 per cent over the current year—and further increases in the later years. This will allow for increased levels of expenditure on the arts bodies—regional and national—supported by the Arts Council. It will enable the National Museums and Galleries to carry out further improvements to their buildings and facillties. For the British Library, it will provide for increases both for current spending and for the new building at St Pancras.

Health

1.49 The programme provides for spending on the National Health Service and on personal social services in England.

1.50 An increase of £1,150 million has been made on the previous plans for the NHS in England in 1990–91, with an addition of £1,510 million in 1991–92. Cash provision will be £2 billion higher in 1990–91 than 1989–90 in England (and £2·5 billion in the UK). In addition, the health service will have available extra cash released by a new round of cost improvement programmes and income generation. Taking these further factors into account, the resources available to the NHS in England will be over £2·2 billion (over 5½ per cent in real terms) higher in 1990–91 than 1989–90, and £2·7 billion for the UK as a whole.

1.51 These increases for the NHS include provision for the implementation of the proposals in the White Paper, "Working for Patients", over and above the funding for the expansion of services.

1.52 Total current expenditure on hospital and community health services in England is planned to rise from £13,650 million in 1989–90 to £14,810 million in 1990–91 and £15,540 in 1991–92. This increase provides scope for health authorities to continue to expand services. Increases will also allow for faster changeover of nursing training schools to the new Project 2000 arrangements. Provision for net capital expenditure on hospital and community health services has been increased by £140 million in 1990–91, to a level 18 per cent higher than in 1989–90. Provision for the family practitioner service allows for higher forecast demand and for service developments. There are also additional funds for special hospitals, health education and disablement services.

Social Security

1.53 The programme provides for expenditure on social security benefits and for the administration costs of paying benefits and collecting contributions. The new plans reflect the latest estimate of benefit expenditure over the Survey period and imply an average increase of some 2½ per cent a year more than the assumed increase in prices. They take account of the statement by the Secretary of State on 25 October 1989 on benefit rates to apply from April 1990. He proposed not to uprate child benefit next year, enabling additional resources to be directed to disabled people, poorer families, and lone parents. He announced ten new measures which are expected to help ½ million long term sick and disabled people and carers. He also announced that he would bring forward within the next few months proposals to improve the balance and structure of social security provision for this group.

1.54 The plans also provide for further upratings of benefits in April 1991 and April 1992. For this purpose the RPI is assumed to rise by 6½ per cent in the year to September 1990 (for the upratings in April 1991) and by 3 per cent in the year to September 1991 (for the upratings in April 1992). The number of unemployed in Great Britain is assumed to average 1·75 million in 1990–91, 1991–92 and 1992–93.

1.55 The new plans provide for grants to local authorities in support of community charge benefit at higher levels of expenditure than on rate rebates; for this purpose, the provision made assumes average community charges in line with the community charge for standard spending in 1990–91. Extra provision is also included for the cost of special assistance to poorer pensioners and the abolition of the pensioners' earnings rule, both implemented in October 1989.

Scotland, Wales and Northern Ireland

1.56 The net changes in these programmes mainly reflect the effects of changes in comparable programmes for England. As in former years the decisions of the Secretaries of State for Scotland, Wales and Northern Ireland on the distribution of resources within their responsibilities will be shown in the public expenditure White Paper. For the purpose of the analysis in Tables 1.5, 1.7, 1.10 and 1.11 in this Statement, a notional split between and within spending authorities has been assumed, taking account of the pattern of expenditure in 1989–90.

Chancellor's Departments

1.58 There is extra provision for the Inland Revenue for the costs of increasing workloads, including the implementation of independent taxation of husbands and wives; and for continuing investment in information technology. Extra provision for Customs also reflects increasing workloads, and covers the costs associated with the Channel Tunnel and preparing for the move to the Single Market. Provision has been made to meet the costs to both the Inland Revenue and Customs of relocating substantial numbers of civil service posts from London. The new plans take into account substantial continuing efficiency gains. Estimates of expenditure on payments of life assurance premium relief and mortgage interest relief to non-taxpayers have been increased.

European Community

1.59 The increase in the United Kingdom's net payments stems from a number of factors, including higher VAT contributions and customs duties, reflecting recent strong economic growth, and higher imports from third countries.

Local authorities

1.60 Under the new systems of local government finance to be introduced in England and Wales in 1990–91, the community charge will replace domestic rates; the new national non-domestic rate (NNDR) will replace the present system of local business rates; the NNDR revenues will be distributed between local authorities on a per head of population basis; revenue support grant will replace the existing rate support grant; and a new capital finance system will be introduced.

1.61 Central Government support for local authority programmes will comprise payments to local authorities from the yield of non-domestic rates; current and capital grants; and credit approvals, which will be permissions to finance capital spending from borrowing or other forms of credit.

1.62 The Government's expenditure plans in the new planning total will, as explained in paragraph 1.15 and in more detail at the annex, cover this central government support for local authorities. Table 1.3 shows the planned levels of total support, while Table 1.5 breaks the total down into its main components.

Table 1.5 Central government support for local authorities

£ million

	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Non-domestic rates payments	8 788	9 620	830	10 430 ⅛		
England	1 290	1 220	−70	1 190 ⅔		
Scotland	368	410	50	420 ⅔		
Wales				¼25 950[3]		26 700[4]
Revenue support grants[2]	9 824	9 610	−210	9 490 ⅔		
England	2 007	2 340	330	2 450 ⅔		
Scotland	1 015	1 050	30	1 130 ⅜		
Wales						
Transitional grants[5]	—	—	—	670	840	550
Other current grants[6]	8 918	9 800	900	11 400	12 000	12 400
Capital grants[7]	544	620	80	1 300	1 300	1 300
Credit approvals[8]	3 697	3 410	−290	3 800	4 000	4 000
Total	**36 450**	**38 100**	**1 600**	**41 800**	**43 800**	**44 900**
of which AEF/AEG	24 789	26 240	1 390	28 800	30 130	30 810

[1] *Proxies have been used for some elements of the planning total for years before 1990–91: the estimated yield of non-domestic rates for non-domestic rates payments; and capital allocations, less capital grants, for credit approvals. See para 1A.10.*

[2] *Rate Support Grant up to 1 April 1989 in Scotland and 1 April 1990 in England and Wales.*

[3] *Comprising £20 550 million (England), £3 770 million (Scotland), £1 630 million (Wales).*

[4] *Comprising £21 140 million (England), £3 880 million (Scotland), £1 680 million (Wales).*

[5] *Area protection, low rateable value, transitional community charge relief and transitional education support grants for inner London boroughs; see footnote 4 to Table 1.6.*

[6] *See Table 1.6.*

[7] *See Table 1.7.*

[8] *Net capital allocations in Scotland. See Table 1.7.*

1.63 Table 1.6 breaks down by Department the provision made in the plan years for all specific grants in support of local authorities' *current* expenditure, including community charge transitional grants. It also shows the outturn in 1988–89 and 1989–90.

Table 1.6 Other current grants to local authorities by department[1]

£ million

	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Ministry of Agriculture, Fisheries and Food[2]	29	−50	−80	−110	−110	−110
Department of Employment	256	350	90	320	330	340
Department of Transport	2	0	0	0	0	0
DOE–Housing[3]	22	20	0	2260	2470	2610
DOE–Other environmental services	20	20	0	10	10	20
DOE–Local government[4]	169	250	80	490	640	360
Home Office	2226	2430	200	2690	2870	2990
Department of Education and Science[4]	904	1020	120	1780	1840	1860
Department of Health	25	40	20	50	30	30
Department of Social Security[5]	4958	5400	400	3840	3890	3890
Scotland[4]	232	250	20	430	460	470
Wales[3,4]	33	40	0	300	310	320
Northern Ireland	41	40	0	50	50	50
Total	**8918**	**9800**	**900**	**12100**	**12800**	**12800**

[1] *Includes specific grants in support of local authorities' current expenditure, except for Revenue Support Grant and non-domestic rates payments, which provide the bulk of this support. RSG and NDR are shown separately in Table 1.5.*

[2] *Includes Intervention Board for Agricultural Produce, and payments from local authorities to the National Rivers Authority for land drainage.*

[3] *Includes central government support for rent rebates from 1990–91.*

[4] *Includes transitional grants to assist with the transfer of responsibility for education to Inner London boroughs, and with the introduction of the community charge, as follows:*

	1990–91	*1991–92*	*1992–93*
Inner London education grant	*100*	*70*	*50*
Low rateable values grant	*87⅓*	*490*	*283*
Area protection grant	*30⅓*		
Transitional relief	*453*	*277*	*212*
Total	*670*	*837*	*545*

[5] *Includes central government support for rent rebates in years prior to 1990–91, community charge benefit grant in Scotland from 1989–90, and in England and Wales from 1990–91, and grants for rate rebates in prior years*

1.64 Included within the components shown in Tables 1.5 and 1.6 are the transitional grants paid in connection with phasing in the community charge. In England, these comprise the transitional community charge relief grant announced for England in October, the low rateable value areas grant; and the area protection grant payable from April 1991 when contributions by gaining local authorities to the area safety net will be discontinued. These grants for England are shown in the DOE-local government line of Table 1.4. Scottish and Welsh grants are included within the lines for those programmes.

1.65 Also shown in Table 1.5 are figures for the "Aggregate External Finance" (AEF) which the Government provides in support of local authorities' general current expenditure. AEF comprises payments from the national non-domestic rate (NNDR) pool, revenue support grant and most specific grants towards local authority expenditure programmes. In July, the

Secretaries of State for the Environment and Wales announced the proposed AEF totals for next year, and the Secretary of State for Scotland announced corresponding proposals for the aggregate exchequer grant (AEG) total for Scotland. Revenue support grant and national non-domestic rate (NNDR) payments for England are included in the DOE-local government line of Table 1.4. The comparable items for Scotland and Wales are included within the lines for the Scottish and Welsh Offices.

1.66 Table 1.7 breaks down by Department the totals of *capital* grants and credit approvals in England and Wales, and of capital allocations in Scotland.

Table 1.7 Credit approvals [1] and capital grants in support of local authority capital expenditure

	£ million				
	Latest estimates of outturn		New Plans		
	1988–89 outturn	1989–90 estimated outturn	1990–91	1991–92	1992–93
Ministry of Agriculture, Fisheries and Food	29	30	30	40	40
Department of Transport	682	640	730	820	810
DOE—Housing	1 341	1 110	1 930	1 900	1 860
DOE—Other environmental services [3]	474	490	430	440	460
Home Office	120	180	240	270	280
Department of Education and Science	405	370	460	470	480
Department of Health	81	80	90	100	110
Scotland	787	790	790	830	870
Wales	316	340	380	390	400
Northern Ireland	5	10	20	20	20
Total	**4 241**	**4 030**	**5 100**	**5 300**	**5 300**
of which					
capital grants	544	620	1 300	1 300	1 300
credit approvals	3 697	3 410	3 800	4 000	4 000

[1] *Or territorial equivalents.*
[2] *Proxies have been used for credit approvals for years before 1990–91: see footnote 1 to Table 1.5.*
[3] *Includes credit approvals issued on behalf of Department of Employment, Department of Trade and Industry, and the Office of Arts and Libraries.*

1.67 Table 1.3 shows, outside the new planning total, but within the totals for GGE, outturn figures for total local authority expenditure from 1984–85 to 1988–89. It also gives an estimate of the outturn in 1989–90. Current expenditure in 1989–90, excluding debt interest, is now expected to exceed provision by about £1 billion, while gross local authority capital expenditure is estimated to be some £1¾ billion in excess of provision, at about £9½ billion (see Table 1.14). The large excess on capital expenditure is thought to reflect the transition to the new system of local authority capital finance in April 1990.

1.68 The level of total local authority expenditure in 1990–91 and beyond will reflect decisions by local authorities. Since this spending, including expenditure which local authorities finance from their own resources, is part

of GGE, projected levels for the next three years are shown in Tables 1.3 and 1.12, even though they do not form part of the Government's plans. The projections assume that in general local authority spending will rise broadly in line with past trends but that gross capital expenditure will fall from its exceptionally high level in 1989–90 to a level more in line with earlier years, perhaps around £8 billion. For 1991–92 and 1992–93, the projected growth in total local authority expenditure is modest.

1.69 The Department of the Environment has published separately the Government's assessment of the level of current expenditure appropriate for all local authorities in England next year to provide a standard level of service ("total standard spending"). The Scottish and Welsh Offices are publishing similar material.

1.70 Table 1.17 gives figures for local authority capital receipts from the sale of land and existing buildings (net of purchases) between 1984–85 and 1988–89. It also gives an estimate of outturn in 1989–90 and a broad projection for 1990–91. Within this total, receipts from sales of local authority housing, mainly under the Government's right to buy policy, may amount to some £3 billion. As explained above, local authority capital receipts reduce GGE but do not directly affect the new planning total.

Nationalised industries

1.71 The Government's objective is to minimise the burden which the industries place on the taxpayer and to strengthen them as businesses earning an adequate rate of returns. External finance for nationalised industries has been significantly reduced, from nearly £3 billion in 1979–80 to an estimated £700 million in 1989–90. The Government will continue to require improvements in the industries' profitability, efficiency and standards of service and will encourage progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.

1.72 The estimated outturn for nationalised industries' external finance for 1989–90 is £670 million, £700 million higher than the plans in Cm 621. The main increases are for the costs to British Coal of restructuring and to British Rail of the Channel Tunnel services. There are offsetting lower requirements for electricity (England and Wales) because of lower fuel costs and a reduced tax liability.

1.73 External financing limits (EFLs) for the nationalised industries in 1990–91 are listed in Table 1.8, which also shows the plans for the two later years. Up to privatisation the electricity industry will have substantial negative external financing requirements. But the industry will be privatised in 1990 and 1991; its EFLs in 1990–91 take account of that, and there are no entries for electricity in the two later years. This is reflected in an increase in the total figures for the nationalised industries between 1990–91 and 1991–92.

Table 1.8 External financing requirements for the nationalised industries, 1990–91 to 1992–93

	£ million		
	1990–91	1991–92	1992–93
British Coal	385	270	280
British Railways Board	650	760	760
London Regional Transport	443	440	430
Civil Aviation Authority	67	40	70
British Shipbuilders	8	0	−20
British Waterways Board	49	50	50
Caledonian MacBrayne Ltd	7	10	10
Post Office	38	−60	−70
Scottish Bus Group	−7		
Electricity (England and Wales)	−900[1]		
Electricity (Scotland)	120[1]		
Total	**620**	**1,510**	**1,510**

[1] *Allowance for external financing for Electricity.*
Figures will depend on actual timing of privatisation in 1990 and 1991.

1.74 Provision has been increased for the external financing requirements of the industries remaining in the public sector throughout the period. This mainly reflects substantial increases in the levels of investment planned by London Regional Transport, British Rail and the Post Office. By 1992–93, provision for capital investment by those industries remaining in the public sector will be some 50 per cent higher in real terms than in 1988–89.

Other public corporations

1.75 There is provision for a large number of public corporations including Urban Development Corporations (UDCs), the Scottish and Welsh Development Agencies, the Northern Ireland Electricity Service, new towns, Scottish Homes, and the Northern Ireland Housing Executive. Substantial increases to provision have been made for UDCs. These are more than offset in 1990–91 by an increased estimate of receipts by new towns.

Science and technology

1.76 The new plans reallocate resources for science and technology towards basic and long term strategic research by the universities and Research Councils. Within the new plans described above, £100 million has been added to planned spending on civil science and technology in 1990–91. Most of the increase benefits the DES science budget, which will grow by 25 per cent between 1988–89 and 1990–91. There is provision for increased environmental research.

Capital spending

1.77 Within the departmental plans described above, extra provision of about £1 billion has been made for central government capital spending in 1990–91. This includes large increases for investment in roads, hospitals, education and science, and housing. Provision for investment by those nationalised industries remaining in the public sector throughout the period has been increased by some £$\frac{1}{4}$ billion in 1990–91, rising to some £$\frac{1}{2}$ billion in 1991–92. Provision for investment by other public corporations has been increased by some £$\frac{1}{4}$ billion in 1990–91. Total additions to provision for capital investment in transport, by both central government and public corporations, amount to over £$\frac{3}{4}$ billion in each of 1990–91 and 1991–92.

Privatisation

1.78 The estimate of net proceeds for 1989–90 from the privatisation programme is £4$\frac{1}{4}$ billion. For 1990–91 and 1991–92, the estimate of net proceeds is £5 billion as in the public expenditure White Paper. These proceeds are netted off the planning total and general government expenditure. However, in order to show the underlying trends in expenditure more clearly, Charts 1.1 and 1.2 show trends in expenditure both including and excluding privatisation proceeds.

Reserves

1.79 The plans include Reserves of £3 billion in 1990–91, £6 billion in 1991–92 and £9 billion in 1992–93. These will be available to meet unforeseen requirements on items of expenditure within the new planning total.

Debt interest

1.80 General government gross debt interest is projected to fall from about £18 billion in 1988–89 to about £14 billion in 1992–93 (see Table 1.9). For 1990–91 to 1992–93, the figures are the same as projected in the FSBR. Following the reduction in government borrowing and the move into Budget surplus in recent years, debt interest has declined as a proportion of GDP from 5 per cent in 1981–82 to about 3$\frac{3}{4}$ per cent in 1988–89 and is projected to fall further to 2$\frac{1}{4}$ per cent by 1992–93.

Table 1.9 General government debt interest

	1987–88 Outturn	1988–89 Outturn	1989–90 Projection	1990–91 Projection	1991–92 Projection	1992–93 Projection
	£ billion					
General government gross debt interest[1]	17·7	18·1	17½	15½	14½	14
Of which:						
Central government	17·0	17·5	17	15½	14	15½
General government interest and dividend receipts	6·1	6·6	7	6½	6½	5½
General government net debt interest	11·6	11·4	11	9	8	8
	Per cent of GDP					
General government gross debt interest[1]	4¼	3¾	3½	2¾	2½	2¼
General government net debt interest	2¾	2½	2	1¾	1½	1¼
[1]*Of which: Servicing of indexed securities (gilts plus national savings)*	*1·3*	*1·6*	*2·1*	*2·1*	*1·6*	*1·6*

Value for Money

1.81 The Government attaches high priority to getting better value for money from all public expenditure. The improvements in public services that will result from the new public expenditure plans described above will be increased further by continuing improvements in value for money. The public expenditure White Paper, to be published early in 1990, will include information on the output and performance of departmental programmes and will include details of performance against specific targets.

1.82 Since 1979 efficiency scrutinies have saved over £1·3 billion on a cumulative basis. Departments have achieved value for money improvements in purchasing and supply worth about £350 million in 1988–89, equivalent to over 5 per cent of their purchasing expenditure; market testing and contracting out are now saving some £50 million a year in the Civil Service. The Government's programme ("The Next Steps") to create agencies to carry out the executive functions of Government will lead to further improvements in civil service efficiency. So far, ten agencies have been set up, covering 7,700 employees, and a further 38 activities have been identified as agency candidates, covering 200,000 staff (over a third of the Civil Service).

1.83 In the National Health Service cost improvement programmes are expected to have yielded savings of about £1 billion by the end of the current financial year. In local authorities, value for money improvements of around £300 million a year have been achieved following work by the Audit Commission: and scope for achieving a further £600 million has been identified. Achievement of these will be encouraged by the present reform of local government finance and by measures in the Local Government Act 1988 to widen the scope of competitive tendering. In the nationalised industries since 1979–80 average productivity has grown significantly faster than recorded productivity in the economy as a whole.

Outturn in 1989–90

1.84 In the last public expenditure White Paper, Cm 621, the planning total for 1989–90 was set, on the old definition, at £167·1 billion, including a Reserve of £3·5 billion. As Table 1.13 shows, the estimated outturn is £168·2 billion. This implies claims on the Reserve totalling £4·6 billion.

1.85 Within this total, additional expenditure by local authorities looks likely to account for some £2¾ billion (see Table 1.14). New arrangements for the planning and financing of local government expenditure are to be introduced in England and Wales from April 1990 (see paragraph 1.60 above).

1.86 Additional financial requirements of the nationalised industries (mainly costs associated with restructuring British Coal) are expected to account for £? billion. Lower privatisation proceeds, resulting from the subscription by the Government for shares in the ten water companies of England and Wales, are expected to account for £¾ billion.

1.87 Table 1.15 shows the estimated outturn for 1988–89 and 1989–90 for local authority expenditure within the old planning total. Table 1.16 shows the outturn for the planning total on the old definition for 1984–85 to 1989–90 compared with the plans published in previous years.

Table 1.10 Central government's own expenditure [1, 2]

£ million

	Latest estimates of outturn			New plans			Changes from 1989 White Paper [3]		
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1990–91 Plans	1991–92 Plans	1992–93 Plans	1989–90	1990–91	1991–92
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430	170	10	250
FCO—Diplomatic wing	739	840	100	890	940	970	40	50	60
FCO—Overseas Development Administration	1 507	1 570	80	1 680	1 780	1 850	60	80	110
Ministry of Agriculture, Fisheries and Food	1 559	1 630	70	1 910	2 120	2 220	−240	−170	−160
Trade and Industry	1 685	1 230	−460	1 220	1 080	1 000	−120	−80	−70
Export Credits Guarantee Department	109	340	230	240	70	−30	160	120	10
Energy	538	460	−80	450	410	410	−20	40	50
Department of Employment	3 591	3 530	−60	3 460	3 340	3 370	−150	−110	−220
Department of Transport	1 405	1 970	560	2 310	2 410	2 510	190	430	460
DOE—Housing	1 376	1 540	160	2 250	2 560	2 680	100	570	550
DOE—Other environmental services	530	620	120	610	550	480	−30	−70	−130
DOE—Property Services Agency (Services)	0	−80	−100	30	0	−10	60	170	180
DOE—Local government	0	0	0	40	40	40	0	40	40
Home Office	1 364	1 670	310	1 910	1 870	1 880	−10	80	20
Lord Chancellor's and Law Officers' departments	902	1 120	200	1 270	1 380	1 470	20	80	120
Department of Education and Science	2 961	4 310	1 350	4 590	4 460	4 590	30	190	0
Office of Arts and Libraries	414	440	30	490	520	540	0	40	40
Department of Health	18 431	20 060	1 630	22 040	23 350	24 470	260	1 170	1 540
Department of Social Security	44 473	47 180	2 710	52 000	56 200	59 500	−300	−670	1 800
Scotland [4]	3 827	4 010	180	4 370	4 570	4 710	20	210	240
Wales [4]	1 730	1 890	160	2 110	2 190	2 250	20	150	170
Northern Ireland [4]	5 142	5 520	380	5 750	6 050	6 290	340	330	390
Chancellor's departments	3 695	4 150	460	4 620	4 880	5 140	10	290	350
Other departments	278	310	30	370	380	400	60	30	30
European Communities	1 006	2 030	1 020	1 870	1 670	1 990		−80	90
Total	**116 335**	**126 650**	**10 320**	**137 310**	**144 930**	**151 790**	**700**	**4 240**	**5 920**

[1] *See footnotes to Table 1.3.*

[2] *Figures exclude finance for public corporations.*

[3] *Plans as set out in the last public expenditure White Paper, adjusted for changes of classification and allocation, including those described in paragraph 1.44.*

[4] *See paragraph [ ].*

Table 1.11 Public corporations[1]

£ million

	Latest estimates of outturn			New plans			Change from 1989 White Paper[2]		
	1989–90 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1990–91 Plans	1991–92 Plans	1992–93 Plans	1989–90	1990–91	1991–92
FCO—Overseas Development Administration	34	50	20	30	30	30	20	0	0
Ministry of Agriculture, Fisheries and Food	18	10	−10	0	0	0	−10	0	0
Department of Trade and Industry	−343	−70	300	50	−70	−80	0	90	10
Department of Energy	−810	−310	650	−610	260	270	430	310	−20
Department of Employment	4	0	0	0	0	0	0	0	0
Department of Transport	745	990	340	830	1 240	1 260	220	400	500
DOE—Housing	−86	−110	−10	−170	−150	−140	−70	−160	−190
DOE—Other environmental services	−85	350	470	330	250	260	200	100	0
Department of Health	−7	0	50	0	0	0	0	0	0
Scotland[3]	342	370	50	310	470	480	10	80	0
Wales[3]	104	130	20	120	120	110	10	10	0
Northern Ireland[3]	275	190	−90	170	150	150	−60	0	10
Chancellor's departments	−7	0	10	−10	−20	−20	0	0	0
Total[4]	**−183**	**1 590**	**1 790**	**1 370**	**2 300**	**2 340**	**760**	**840**	**330**
of which:—									
Nationalised industries	−471	860	1 330	520	1 510	1 510	700	910	530
Other public corporations	288	730	−440	850	790	830	60	−80	−210

[1] *See footnotes to Table 1.3. For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external finance limits for 1990–91 to 1992–93, see Table 1.8.*

[2] *See footnote 3 to Table 1.10.*

[3] *See paragraph [ ].*

[4] *Provision for Electricity (England, Wales and Scotland) and Scottish Bus Group, which are assumed to be privatised during 1990–91, is included in the outturn years and the plans for that year only.*

Table 1.12 Planning total and general government expenditure[1, 2]

	£ million				
	Outturn				
	1984–85	1985–86	1986–87	1987–88	1988–89
Central government's own expenditure—	**114·6**	**116·2**	**119·8**	**119·3**	**116·3**
of which:					
Ministry of Defence	21·0	20·9	20·5	20·2	19·1
FCO—Diplomatic Wing	0·7	0·7	0·7	0·7	0·7
FCO—Overseas Development Administration	1·4	1·4	1·4	1·4	1·5
Ministry of Agriculture, Fisheries and Food	2·2	2·6	1·8	1·9	1·6
Trade and Industry	1·4	1·3	2·1	1·0	1·7
Export Credits Guarantee Department	0·7	0·4	0·3	0·2	0·1
Energy	0·6	1·0	1·0	0·6	0·5
Department of Employment	3·7	3·7	4·1	3·9	3·6
Department of Transport	1·4	1·4	1·4	1·5	1·4
DOE—Housing	1·4	1·4	1·5	1·4	1·4
DOE—Other environmental services and Ordnance Survey	0·4	0·3	0·4	0·5	0·5
DOE—Property Services Agency	0	0	0	0	0
DOE—Local Government	0	0	0	0	0
Home Office (including the Charity Commission)	1·1	1·2	1·2	1·3	1·4
Lord Chancellor's and Law Officers' departments	0·6	0·7	0·7	0·8	0·9
Department of Education and Science	2·8	2·8	2·8	2·9	3·0
Office of Arts and Libraries	0·3	0·3	0·4	0·4	0·4
Department of Health and Office of Population Censuses and Surveys	16·5	16·6	17·2	17·9	18·4
Department of Social Security	43·9	45·2	47·1	46·7	44·5
Scotland	3·6	3·7	3·7	3·7	3·8
Wales	1·5	1·6	1·6	1·7	1·7
Northern Ireland	4·4	4·5	4·7	4·8	5·1
Chancellor of the Exchequer's departments	3·2	3·3	3·6	3·7	3·7
Cabinet Office, Privy Council Office and Parliament	0·3	0·3	0·3	0·3	0·3
European Communities	1·2	1·0	1·2	1·8	1·0
Central government support to local authorities	**37·8**	**36·3**	**37·6**	**38·2**	**36·5**
Financial requirements of public corporations	**6·1**	**3·1**	**1·2**	**0·9**	**−0·2**
Reserve					
Privatisation proceeds	**−2·5**	**−3·2**	**−5·0**	**−5·5**	**−7·1**
Adjustment					
New planning total	**156·0**	**152·4**	**153·6**	**152·8**	**145·5**
Total local authority expenditure	47·5	46·0	47·4	47·9	46·6
Less items included in the planning total	37·8	36·3	37·6	38·2	36·5
Local authority self-financed expenditure	9·7	9·7	9·8	9·7	10·2
Central government debt interest	17·6	18·7	18·6	18·3	17·6
Accounting adjustments	1·9	3·7	3·8	4·3	5·3
General government expenditure	**185·2**	**184·6**	**185·8**	**185·0**	**178·6**

[1] *See footnote to Table 1.3.*

[2] *Real terms figures are cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnote 2 to Table 1.1).*

Estimated Outturn	New Plans			
1989–90	1990–91	1991–92	1992–93	
118·2	122·6	124·6	126·8	**Central government's own expenditure—**
				of which:
19·0	18·9	19·2	19·6	Ministry of Defence
0·8	0·8	0·8	0·8	FCO—Diplomatic Wing
1·5	1·5	1·5	1·5	FCO—Overseas Development Administration
1·5	1·8	1·9	1·9	Ministry of Agriculture, Fisheries and Food
1·1	1·1	1·0	0·9	Trade and Industry
0·3	0·2	0·1	0	Export Credits Guarantee Department
0·4	0·4	0·3	0·3	Energy
3·3	3·1	2·9	2·8	Department of Employment
1·8	2·0	2·1	2·1	Department of Transport
1·4	2·0	2·2	2·2	DOE—Housing
0·5	0·6	0·6	0·6	DOE—Other environmental services and Ordnance Survey
0	−0·1	−0·1	−0·2	DOE—Property Services Agency
0	0	0	0	DOE—Local Government
1·6	1·7	1·6	1·6	Home Office (including the Charity Commission)
1·0	1·1	1·2	1·2	Lord Chancellor's and Law Officers' departments
4·0	4·3	4·3	4·2	Department of Education and Science
0·4	0·4	0·4	0·5	Office of Arts and Libraries
18·7	19·6	20·1	20·4	Department of Health and Office of Population Censuses and Surveys
44·1	46·3	47·9	49·4	Department of Social Security
3·8	3·8	3·9	3·9	Scotland
1·8	1·9	1·9	1·9	Wales
5·2	5·1	5·1	5·2	Northern Ireland
3·9	4·0	4·1	4·2	Chancellor of the Exchequer's departments
0·3	0·3	0·3	0·3	Cabinet Office, Privy Council Office and Parliament
1·9	1·8	1·3	1·5	European Communities
35·6	37·3	37·4	37·0	**Central government support to local authorities**
1·4	**1·3**	**2·0**	**2·0**	**Financial requirements of public corporations**
	2·7	5·2	7·5	**Reserve**
−4·0	−4·5	−4·3	−4·2	**Privatisation proceeds**
−0·2				**Adjustment**
151·1	**159·6**	**164·9**	**169·4**	**New planning total**
47·9	*47·8*	*47·9*	*47·9*	Total local authority expenditure
35·6	*37·2*	*37·6*	*37·5*	Less items included in the planning total
12·4	*10·5*	*10·3*	*10·3*	Local authority self-financed expenditure
16·1	*13·6*	*12·0*	*11·4*	Central government debt interest
3·8	*3·8*	*3·4*	*3·9*	Accounting adjustments
183·4	**191·7**	**195·4**	**199·6**	**General government expenditure**

Table 1.13 Old planning total, 1988–89 and 1989–90[1]

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper[2]
Ministry of Defence	19 073	20 310	1 240	170
FCO—Diplomatic wing	712	810	100	40
FCO—Overseas Development Administration	1 541	1 620	80	80
Ministry of Agriculture, Fisheries and Food	1 772	1 690	−80	−260
Department of Trade and Industry	1 406	1 260	−150	−110
Export Credits Guarantee Department	109	340	230	160
Department of Energy	−420	140	560	410
Department of Employment	3 731	3 890	160	−160
Department of Transport	4 721	5 900	1 180	720
DOE—Housing	1 819	2 430	610	720
DOE—Other environmental services and Ordnance Survey	3 783	5 144	1 360	730
Home Office (including the Charity Commission)	6 304	7 170	860	260
Lord Chancellor's and Law Officers' Department	893	1 110	220	30
Department of Education and Science	18 611	20 230	1 620	660
Office of Arts and Libraries	974	1 060	90	80
Department of Health and Office of Population Censuses and Surveys	21 764	23 740	1 980	560
Department of Social Security	47 162	50 200	3 100	−700
Scotland	8 657	9 310	650	340
Wales	3 559	3 910	350	130
Northern Ireland	5 566	5 810	240	290
Chancellor of the Exchequer's Departments	3 685	4 140	450	10
Cabinet Office, Privy Council and Parliament	278	320	40	−10
European Communities	1 006	2 030	1 020	−60
Reserve	0	0	0	−3 500
Privatisation proceeds	−7 065	−4 150	2 920	850
Adjustment		−200	−200	−200
Old planning total	**149 638**	**168 200**	**18 600**	**1 100**

[1] *See footnotes 1, 4–8, 10 and 12 to Table 1.3.*
[2] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

Table 1.14 Old planning total: differences between plans and estimated outturn by spending sector 1989–90

	£ million		
	Plans in 1989 White Paper[1]	Estimated outturn	Changes from 1989 White Paper[1]
Central government[2]	123 718	124 300	600
Local authority expenditure[2]			
—current	41 393	42 400	1 000
—capital	2 616	4 280	1 670
Public corporations	826	1 590	760
Reserve	3 500	0	−3 500
Privatisation proceeds	−5 000	−4 250	750
Adjustment[3]	0	−200	−200
Old planning total	167 053	168 200	1 100
General government gross debt interest	17 000	17 800	800
Other national accounts adjustments	9 500	10 300	800
General government expenditure	193 700	196 300	2 600
General government expenditure (excluding privatisation proceeds)	198 700	200 500	1 850

[1] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

[2] *Excluding finance for public corporations.*

[3] *See footnote 12 to Table 1.3.*

Table 1.15 Local authority expenditure in 1988–89 and 1989–90 (old planning total basis)[1, 2]

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper[3]
Ministry of Agriculture, Fisheries and Food	194	210	10	−10
Department of Trade and Industry	94	110	10	10
Department of Employment	137	140	0	0
Department of Transport	2652	2890	240	140
DOE—Housing	544	1000	460	700
DOE—Other environmental services	3371	4310	940	560
Home Office	5148	5730	590	270
Department of Education and Science	15475	15920	480	630
Office of Arts and Libraries	560	620	60	80
Department of Health	3382	3730	350	310
Department of Social Security	3837	4300	500	−400
Scotland	4510	4940	430	300
Wales	1715	1890	170	100
Northern Ireland	840	900	60	0
Old Planning Total	**42458**	**46700**	**4200**	**2700**
of which:—				
Current	39601	42400	2800	1000
Capital	2857	4280	1420	1670

[1] *Figures exclude debt interest and finance for public corporations.*
[2] *See footnotes 1, 4-8 and 10 to Table 1.3.*
[3] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

Table 1.16 Old planning total[1]; plans and outturn

	£ billion					
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
March 1982 White Paper (Cmnd 8494)	127·8					
February 1983 White Paper (Cmnd 8789)	126·6	132·4			Plans	
February 1984 White Paper (Cmnd 9143)	126·6	132·2	136·8		**Outturn**	
January 1985 White Paper (Cmnd 9428)	**128·3**	132·2	136·9	141·7		
January 1986 White Paper (Cmnd 9702)	**129·7**	**134·3**	139·2	144·0	148·8	
January 1987 White Paper (Cm 56)	**129·9**	**133·7**	**140·5**	148·7	154·3	161·5
January 1988 White Paper (Cm 288)	**129·9**	**133·8**	**139·3**	**147·4**	156·9	167·1
January 1989 White Paper (Cm 621)	**129·9**	**133·8**	**139·3**	**145·7**	**153·4**	**167·1**
This Autumn Statement	**129·9**	**133·7**	**139·3**	**145·8**	**149·5**	**168·2**[2]

[1] *Planning total on 1989 White Paper definition adjusted for minor classification changes, other than those described in footnote 1 to Table 1.A1.*
[2] *Estimated.*

Table 1.17 General government receipts from sales of land and buildings (net of purchases)

	£ billion						
	Latest estimates of outturn						New plans
	1984–85 Outturn	1985–86 Outturn	1986–87 Outturn	1987–88 Outturn	1988–89 Outturn	1989–90 Estimated outturn	1990–91 Plans[1]
Central government[2]	—	0·1	0·2	0·1	0·3	0·3	½
Local authority							
Housing	1·3	1·2	1·4	1·9	3·1	3·3 ⅛	
Other	0·4	0·5	0·6	1·1	1·5	1·0 ¼	4
Total	1·7	1·7	2·0	2·9	4·6	4·3 ⅜	
Total general government	1·8	1·8	2·2	3·1	4·9	4·6	4

[1] *Projected local authority receipts for 1990–91 and the total are rounded to the nearest £ billion.*
[2] *Excluding receipts included in privatisation proceeds (Forestry Commission, land settlement, motorway service leases—see Table 21.1.18 of Cm 621).*

Annex to Chapter 1

Introduction

1A.1 This Autumn Statement is the first to use the new planning total for public expenditure announced in the White Paper, "A New Public Expenditure Planning Total" (Cm 441, July 1988). This does not affect in any way the Government's wider medium term aims for total public spending. These are expressed, as before, in terms of general government expenditure (GGE), excluding privatisation proceeds. The definition of GGE is unchanged.

1A.2 This change is being made at the same time as the reform of local government finance in England and Wales, from 1 April 1990. A new system of local government finance was introduced in Scotland in April 1989. Further details are given in paragraph 1.60 of this Autumn Statement.

1A.3 Both changes are intended to distinguish more clearly between the responsibilities of central and local government.

The new planning total

1A.4 For operational purposes the Government has for many years set a planning total against which it monitors and seeks to control departmental expenditure. The old planning total, like GGE, covered all local authority expenditure, net of capital receipts, including spending which local authorities finance from their own resources and for which local authorities are responsible. At the same time, it did not include the grants which central government determines and pays to local authorities.

1A.5 The new planning total brings together all the elements of public expenditure for which central government is responsible. The change in definition affects the treatment of local authority expenditure. The new planning total thus includes

—the grants, current and capital, central government provides to local authorities;

—payments to local authorities from the yield of non-domestic rates; and credit approvals

—Local authority spending financed from local taxation and other miscellaneous income will be excluded.

1A.6 The new planning total also covers, as did the old, central government's own expenditure; the external finance of the nationalised industries and of most other public corporations; privatisation proceeds (deducted from the planning total); and a Reserve.

1A.7 The Government has, at the same time, taken the opportunity to change the treatment of some other elements of expenditure, bringing the planning total closer into line with national accounts. These changes are noted in footnote 1 to Table 1A.1.

The new plans

1A.8 Table 1.3 shows the new plans in summary, on the new definition of the planning total. Table 1.3 also shows estimates of the outturn for 1984–85 to 1989–90 on the new basis. For local authority elements of the new planning total, proxy figures have been used for non-domestic rate payments and for credit approvals, neither of which existed in the same form under the old arrangements for local government finance.

Comparisons with previous plans

1A.9 The relationship between the old and new planning totals and GGE is as follows:

OLD	NEW
Central government's own expenditure	Central government's own expenditure
Public corporations	Public corporations
Local authorities spending (net of capital receipts) —current —capital	Central Government support for local authorities —Revenue Support Grant —Non-domestic rate payments —Credit approvals
Privatisation proceeds	Privatisation proceeds
Reserve	Reserve
	New Planning Total
Old Planning Total	
	Local authority self-financed expenditure (net of capital receipts)
General government debt interest	Central government debt interest
Other adjustments	Other adjustments
General government expenditure	

1A.10 Table 1A.1 compares in more detail the new plans with those shown in the 1989 public expenditure White Paper (Cm 621), which were based on the old definition of the planning total. Table 1A.2 compares trends in the new and old planning totals and in GGE.

1A.11 The new plans can be compared directly with previous plans only in those areas where the new and old definitions overlap (central government's own expenditure, public corporations, and privatisation proceeds). These comparisons are shown in Tables 1.10, 1.11, and 1.A1.

1A.12 Under the new arrangements the Government is publishing plans for central government support for local authorities for three years ahead for the first time. Comparisons with previous plans are therefore not possible for these new local authority elements of the planning total, nor for the planning total itself.

Table 1A.1 Changes in planning total and general government expenditure for 1990–91 and 1991–92 since 1989 public expenditure White Paper

	£ billion			
	1990–91		1991–92	
	White Paper	New Plans	White Paper	New Plans
Central government's own expenditure				
White Paper plans	*131·2*	—	*136·9*	—
Classification changes[1]	—	+2·3	—	+2·4
Survey changes	—	+4·2	—	+5·9
New plans	—	137·3	—	144·9
Public corporations				
White Paper plans	*0·6*	—	*2·0*	—
Classification changes[1]	—	−0·1	—	−0·1
Survey changes	—	+0·8	—	+0·3
New plans	—	1·4	—	2·3
Local authority current				
White Paper plan (expenditure)	*43·2*	—	*44·6*	—
RSG and NDR	—	25·1	—	26·0
Other current grants	—	12·1	—	12·8
Local authority capital				
White Paper plan (net expenditure)	*2·4*	—	*2·5*	—
Capital grants	—	1·3	—	1·3
Credit approvals	—	3·8	—	4·0
Privatisation proceeds	*−5·0*	−5·0	*−5·0*	−5·0
Reserve				
Old planning total	*7·0*	—	*10·5*	—
New planning total	—	3·0	—	6·0
Old planning total	*179·4*	—	*191·6*	—
New planning total	—	179·0	—	192·3
Local authority self-financed expenditure (net of capital receipts)[2]	—	12·0	—	12·0
General government debt interest	*15½*	—	*14½*	
Central government debt interest	—	15½	—	14·0
Other adjustments[3]	*10½*	4½	*9½*	4·0
General government expenditure	205·0	210½	*215½*	222¼

[1] *In addition to minor changes of classification and allocation the following changes have been introduced, bringing the planning total closer into line with the national accounts: statutory sick pay and statutory maternity pay are now included in the planning total; receipts from fines, fixed penalties and certain fees are now excluded from the planning total and treated as revenue; spending formerly included in local authority expenditure, on police, education and fire services in Northern Ireland, is now included in central government's own expenditure; expenditure of the National Rivers Authority financed by precepts on local authorities is now similarly treated; expenditure on certain educational initiatives of the Training Agency formerly treated as central government's own expenditure is now included in grants to local authorities; and local authority support for their airport and bus companies is now treated as local authority expenditure rather than public corporations' external finance.*

[2] *In the new plans, local authority self-financed expenditure is derived by subtracting from a projection of total local authority expenditure the support made available by central government (ie the sum of the local authority components of the new planning total). Total local authority expenditure includes local authority debt interest payments to the market and to central government. In the 1989 White Paper local authority debt interest payments to the market were included in general government debt interest.*

[3] *Other adjustments in the new plans are lower than in the White Paper because of the classification changes described in footnote 1 and because, to avoid double counting in general government expenditure, local authority debt interest payments to central government included in local authority expenditure are deducted.*

Table 1A.2 Public expenditure, 1978–79 to 1992–93

	Planning total				General government expenditure (excluding privatisation proceeds)		GDP deflator
	Old definition[1]		New definition				(1988–89 = 1)
	Cash	Real[2]	Cash	Real[2]	Cash	Real[2]	
1978–79	65·7	144·1			75·0	164·3	0·456
1979–80	77·6	145·9			90·3	169·6	0·532
1980–81	92·7	147·1			108·8	172·6	0·630
1981–82	104·0	150·5			121·0	175·1	0·641
1982–83	113·6	153·5			133·1	179·7	0·740
1983–84	120·4	155·4			141·6	182·6	0·775
1984–85	129·8	159·5	126·8	155·7	152·6	187·4	0·814
1985–86	133·7	155·9	130·6	152·2	160·8	187·4	0·858
1986–87	139·3	157·2	136·0	153·4	168·9	190·6	0·886
1987–88	145·8	156·0	142·5	152·4	177·7	190·1	0·935
1988–89	149·5	149·5	145·6	145·6	185·7	185·7	1·0
1989–90	168·2	157·2	161·7	151·1	200·5	187·4	1·07
1990–91			179·0	159·3	215·4	191·7	1·124
1991–92			192·3	165·4	227·2	195·4	1·163
1992–93			203·4	169·9	239·1	199·6	1·198

[1] *Excluding the major classification changes made along with move to new planning total: see footnote to Table 1A.1.*

[2] *Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes 1 and 2 to Table 1.1).*

SMYTH.

HG has 7 capacity for gloom. (dressed in crepe).

We really shd. not paint down performance of Britain over recent years.

After years of well-above average performance we do have a slowdown in growth.

— BUT /. Growth continues; no recession
Investment continues;
Inflation is falling;
Trade Gap is narrowing.

Media.

My forecasts today are essential preliminary to greater growth + well being in the future.
[HG shd. welcome that].

Training

- lower provision flows from dramatic fall in unemployment + tighter youth employment market;
YTS G/tee will be met;
£2bn. will be spent on YTS + ET;
Improvement in quality + exp per head on training;
Extra help for disabled;
Funding for 80 TEC'S,
+ Employers are now spending £18bn pa (same as Germany)!

Pak. Services Standstill

Capital.

+ £1½bn next yr.

Roads	+350
Hsg	+190
Educ.	+100
Health	+120
UDC	+250
Rail	+195

Under Labour — fell
US — 7 up.

Science.

+ £110m civil S+T

NES Science up 11% next yr. on top of large increases L.Y.
[It fell 25% 1974/9]

Spending by Industry on R+D +27% real since 1983

Bogus economic miracle.
— large B of P.

B of P.

Correction next yr.
1 1/4 % GDP — one
of the largest corrections
ever.

Int. Rates are working.

— slow-down in activity
to bring down inflation
+ that is happening.

Exports

— continue to grow
+ are forecast to grow
6 3/4 next yr.

Structural weakness.

Manuf. Investment

up 10 3/4 in 1988
Strong Growth in 1989.

M/f. Output

— is rising — 4 3/4 %.

G.G.E.

+£5½m. over.

Pub. Services Standstill

NHS. (real growth)

£2.6bn.

£1.2 deflator.

(my figure has deflator falls).

- real incr. 5½%

Homelessness.

R.H.F.

For more than 10,000 homes.

- RHF statement later today.

~~Educ~~ Education

Real incr. in record.

Boudeau + Dossiter

Agnes

Ratio. C.Y.

Settling agent in Yr. 3.

NHF.

Mon Pol. + Fiscal Stance

Rabbit

Tight fiscal + mon. pol. — essential.

Exp. 7 yrs. — on target with ratios.

Opp. Bad ones is good them:

Afford these incr.
+ imp. on service.

RHG.

£ 20kn.

- too high.

£ 15kn.

Labl. most serious prob.

R.H.F. -

Revenue in March.

Con. RHF on lab. b.

'Bal. b. in medium term'

Strong Fiscal

Deficits for Yrs.

£15bn.

21. o/seen inv. in the world.

Demand is competitiveness

£5½bn.

Det to get infl. down.

Reports are often

Reducing B/E — medium. pr

Cut P/E proportionately

Incr. P/E on priorities.

Homelessness. — L/A No

vole — not only vole.

RHG.

Debt. Int. of Zba. this Yr. + next.

Bad. — bad, that is nec.

~~R.H.G.~~

H.F.

Cont. of P/E with

— + with continue

£3bn. adeq.

occupant by

H.G.

No.

H.F.

Vile good news — its bad

for them

HG -

5 3/4. × Cash Pow.

Available.

HF. Same as 2 yrs ago.

~~Power~~

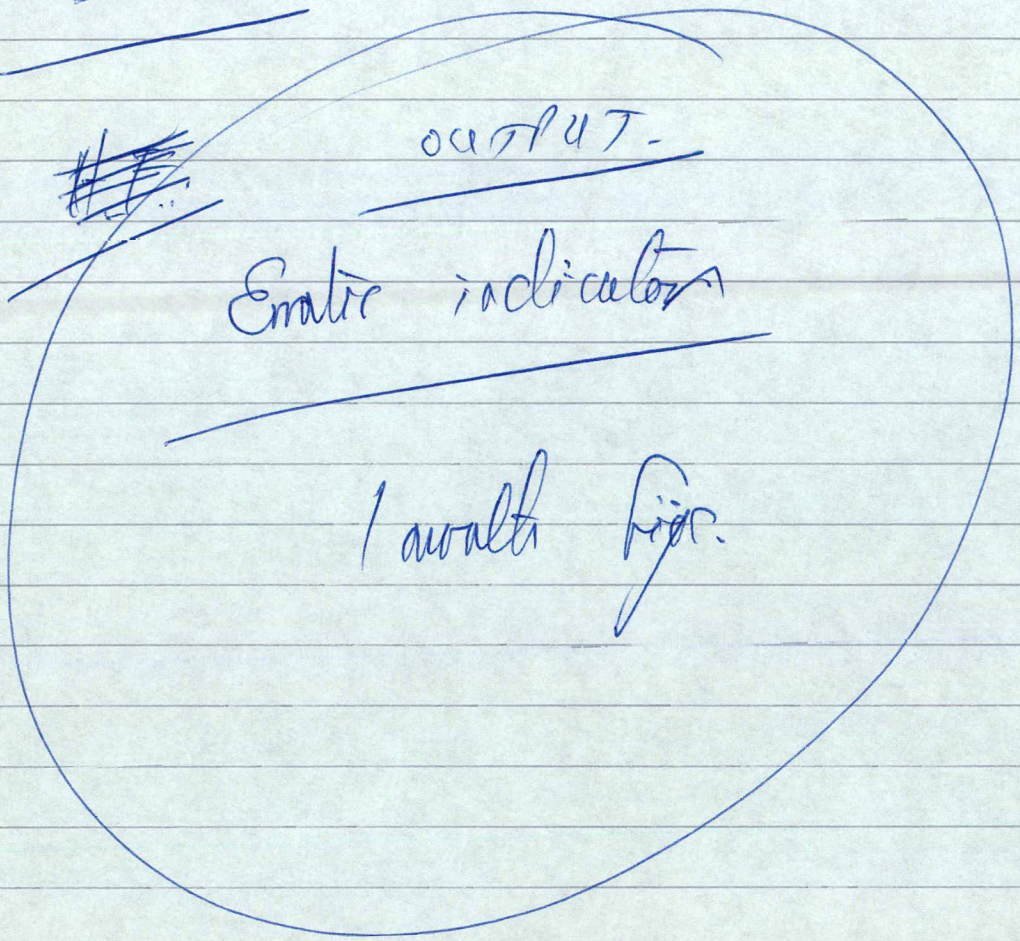
Point Forecast Exch Rates:

Auto + ✓

~~Cadillac.~~

~~H.F.~~

OUTPUT.



Erratic indicator

1 month figs.

Prof. > for 20 Yrs.

10% rule on Pub. Sec.

24 hr.

5% incr.

£ 12½ bn.

Targeted incr. on priorities.

aff

Never afford

Symp.

Yes.

– £250.

f 2 ~~[illegible]~~.

RHF. 'higher living stand.'

— ~~[illegible]~~ supply side impr.

Record of Cab.

chris
'twee Sec
+ Zone Mkts,

£1km. - a week.

Hughson.

Acre

H.L.

- Concerned: lose you the election.

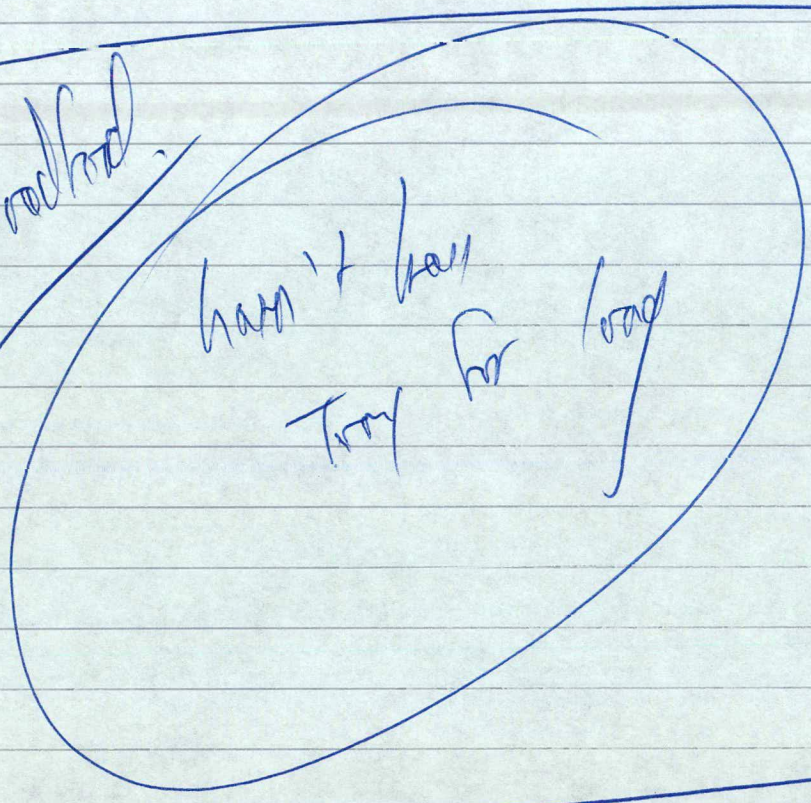
P. Sp

Cost of Staff.

Bradford.

haven't been
Troy for long

Ch



CONFIDENTIAL

FROM: MRS JUDITH CHAPLIN
8th November 1989
x4359

~~Excellent.~~
~~Pt put with AS briefing,~~

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Warwick Lightfoot

John. Pl. put on crib sheet under: "Lawson Warnings on Economy".

ECONOMIC PROSPECTS

As requested at Prayers, I have listed statements by Nigel Lawson indicating that the economy must slow down, that the year ahead will be difficult and that tough decisions have had to be taken already. Two are after he resigned but give the same message as before.

> "After several years of strong growth at little over 3 per cent a year we have now had two years-1987 and 1988-in which growth has been rather faster. Following that spurt it is now likely that we will see a year or two of slower growth as the economy catches its breath." (Mansion House Speech 20th October 1988) (1)

> "I warned here a year ago that this was likely to be followed by a year or two of slower growth as the economy caught its breath. The slowdown has not happened as quickly as I expected. .... But the slowdown is clearly under way and equally clearly has further to go, before the economy resumes its long run upward trend." (Mansion House Speech 19th October 1989) (2)

> "By contrast the Government's policy and position is absolutely plain. We already have the tightest fiscal policy in Europe. And by raising interest rates to 15 per cent I have made it abundantly clear that we will continue to take whatever monetary measures are necessary. Of course I well understand the difficulty

LAWSON

this causes to people with mortgages and to many farms and small businesses. I wish it were not necessary - but it is necessary. And unlike the Rt Hon and learned Member for Monklands East we do not seek to deceive the British people into thinking there is softer option." (Hansard 24th October 1989 col 691)

"But if we stick to the policies I have described what then of the prospect? It is already clear that the growth of total spending in the economy is slowing down. As higher interest rates work their way through, it will slow down further." (Hansard 24th October 1989 col 694)

(3)

"Finally, a word about the short-term prospects for the British economy. There always have been, and there always will be, an economic cycle. ..... We are now once again on the downswing, and I see no need for further policy tightening. While this downswing will not be as sharp as the previous downturn, not least given the much lower level of inflation that we now have, a dull 1989 is bound to be followed by a difficult 1990." (Hansard 31st October 1989 col 209)

(4)

"What we have now is certainly a temporary upsurge of inflation, which we have to get on top of, and that is why I took the very tough decisions, I have not as it were run away because I am not prepared to take tough decisions, I took tough decisions to put interest rates up as high as is necessary in order to get on top of inflation." (The Walden Interview, 5th November 1989)

JC

JUDITH CHAPLIN

ANTI-LABOUR

Public Investment Cuts??

No. Opposition quote bogus figures. They quote figures net of asset sales but real figures is twice that level.

In fact public investment is 2.4 per cent of GDP as large as Germany - and twice figure Opposition quote.

Value of public investment fell 18.5 per cent last year?

More bogus figures from the fantasy factory. These figures are based on investment net of asset sales and totally misleading.

Gross of asset sales public investment increased by 6.7 per cent.

Public sector capital falling as per cent of GDP

[6.6 per cent 78/79 5.2 per cent in 88/89]

- Privatisation has reduced share of public sector
- central government capital spending to rise as per cent of GDP from 88/89 to 90/91
- total investment rising fast faster in 80s in UK than any other EC country 13 per cent up in 1988.

Public sector capital

	1974/9	1979/91
National Roads	-40%	+100%
Railways	+8%	+104%
Hospitals	-30%	+58%
Prisons	-36%	+40%
Central Government		+30%

ANTI LABOUR

WAR WIDOWS

WIDOWS + AIDS

Equal pensions for pre- and post-1973 war widows

[Campaign to increase pensions for pre-1973 war widows to level of those enjoyed by their post-1973 counterparts.]

- War widows already receive favourable treatment in benefit system. Basic pension 30 per cent higher than normal NI widow's pension, and tax-free. 85 per cent of war widows receive age additions to basic pension; 75 per cent of those over retirement age also receive NI retirement pension on top of war widows's pension.

- Real increases in age additions for war widows from April 1990 announced in uprating statement. Over 80's addition raised by over 30 per cent, from £15.30 to £20. Statutory disregard of war pensions for those claiming income-related benefits also increased from £5 to £10.

- Disparity in provision between pre- and post-1973 pensions arises from improvements in 1973 to MOD Armed Forces Pension Scheme. To give retrospective effect to these would cost £200 million for war widows alone, £600 million if disablement pensioners included, and have undesirable implications for public service pensions as a whole.

HAEMOPHILIACS AND AIDS

Line to take

A matter for my Right Hon Friend the Secretary of State. The Government made available £10m to the Macfarlane Trust last year. The Department of Health has always made clear that if representations were made that further contributions were necessary, it would be prepared to consider them.

eb.jr/reg/iop

PERSONAL AND CONFIDENTIAL
until 11.30am on Wednesday 15 November 1989
then UNCLASSIFIED

File: HB/002

Ch/ Are you content with line to take? We'll put this on your AS folder in case it is raised in House. — Yes, KB. DIS

FROM: J ROAF (EB)
DATE: 14 November 1989
x 5206

1. **MR RITCHIE**

2. **CHANCELLOR**

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Scholar
Mr Peretz
Mr Riley
Mr Sedgwick
Mr I Wilson
Mr Burr
Mr O'Donnell
Mr Hibberd
Mr Dyer
Mr Owen
Miss Simpson
Mr Cornelius
Mr Deane
Ms Turk
Miss Wallace
Mrs Chaplin
Mr Lightfoot
Mr Tyrie
Mr Stirling - CSO
Mr Kingaby - CSO
Mr Gray - No.10

Manufacturing output is unexpectedly low in September, but the monthly series can be erratic. The comparison of the average of the past 3 months - a more reliable indicator - shows output continuing to slow, in line with expectations and the forecast

TODAY'S OUTPUT STATS

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER

This will be published at 11.30am on Wednesday 15 November.

2. Latest estimates are:

Index numbers (1985=100)	Industrial production	Manufacturing output	Energy and water
1987	105.8	106.6	103.9
1988	109.4	114.0	99.3
1988 Q1	107.9	110.9	101.1
Q2	109.2	112.4	102.2
Q3	110.5	115.8	98.4
Q4	110.2	116.8	95.5
1989 Q1	109.5	118.6	89.2
Q2	108.7	119.0	85.6
Q3	110.6	119.6	90.3
1989 Jan	109.7	119.0	88.8
Feb	109.3	118.3	89.1
Mar	109.5	118.3	89.7
Apr	109.7	118.1	90.7
May	108.1	119.7	82.2
Jun	108.3	119.2	84.0
Jul	109.8	119.7	87.5
Aug	111.4	120.2	91.7
Sep	110.5	118.9	91.7

Percentage changes	Industrial production	Manufacturing output	Energy and water
1988 on 1987	3.4	6.9	-4.4
Latest 3 months on:			
a) previous 3 months	1.7	0.5	5.5
b) a year earlier	0.1	3.2	-8.2
c) 1979H1	11.8	12.6	10.9

COMMENT

3. Recent index of production figures show annual growth in manufacturing output continuing to slow down from the high growth rates sustained since late 1986. Energy output has been affected by interruptions to oil production in the North Sea. This has depressed the index of production.

4. Manufacturing output in the third quarter of 1989 was 0.5 per cent higher than in the previous three months and 3.2 per cent higher than in the same period a year earlier. This is consistent with the slowdown in the rate of growth of manufacturing output observed since February of this year. The CSO estimate of recent annual trend growth is now 3½ per cent. The three month on previous three month growth rate has been hovering around ½ to 1 per cent for six months, down from a peak of 3.1 per cent in September 1988.

5. The energy sector continues to be affected by interruptions to North Sea oil production, but has recovered quite strongly from the low of May 1989. In the third quarter, output of the energy sector was up 5.5 per cent on the previous quarter but still down 8.2 per cent on a year earlier.

6. The CSO have again quantified the effects of interruptions to oil production, and also adjusted for weather and strikes. Discounting these factors, energy output in July to September 1989 would have been 5 per cent lower than last year, compared with the recorded fall of 8.2 per cent.

7. The index of production in the third quarter was 1.7 per cent higher than in the previous quarter though almost unchanged from a year earlier. The rise over the last three months is nearly all due to the recovery in the energy and water sector. Adjusting for interruptions to oil production, weather and disputes, the index of production in 1989 Q3 would have been ½ per cent higher than Q2 and 1 per cent higher than last year.

8. The CSO are expanding the monthly inquiry on which the Index of Production is based. It will now have roughly the same coverage as the old quarterly inquiry. The procedure used since 1986 of bias adjustments to match monthly and quarterly data is therefore being phased out. The CSO assure us that this change has not significantly affected the IoP; and in particular that it is not responsible for the large fall on the month, which would also have been recorded using the previous system.

Market expectations

9. The markets do not anticipate falls in industrial production and manufacturing output in September. The market consensus is for the IoP to rise by around ½ per cent between August and September (recorded fall of 0.8 per cent), and for manufacturing output to rise by about ¼ per cent month-on-month (recorded fall of 1.1 per cent).

Line to take:

- Manufacturing output growth slowing but increase over past year remains over 3 per cent.

- Energy output severely depressed by North Sea incidents; has been affecting index of industrial production.

Defensive:

Fall of over 1 per cent in manufacturing output in September combined with CBI Survey results suggest that manufacturing entering a recession? No. Monthly figures for manufacturing output erratic by their nature. Looking at average of past three months suggests that output growth slowing, but level of output still over 3 per cent higher than a year ago.

JAMES ROAF

paul/nov.15.2 UNCLASSIFIED

FROM: J P MCINTYRE (ST1)
DATE: 15 November 1989
ext: 4799

CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Phillips
Mrs Lomax
Miss Peirson
Mr Francis
Miss James
Mr Hamshare
Mrs Chaplin
Mr Tyrie

SOCIAL SECURITY: SOCIAL FUND

Today's Guardian reports the critical reaction of welfare agencies, including CPAG, to the decision "virtually to freeze the Social Fund for the second year running" (copy of report attached).

2. The report is correct, in that expenditure from the cash limited part of the fund (for crisis and budgeting loans and community care grants) will rise from £203 million in the current year to £205 million in 1990-91. The PES provision (reflecting loan repayments) will rise from £145 million to £152 million.

Line to take

(i) No evidence that budget will be insufficient to meet high priority needs. My RHF, Secretary of State for Social Security has announced 2 improvements for next year. The maximum amount of capital which people over 60 can have in order to qualify for loans or grants will be raised from £500 to £1000. This will increase the cash limited part of the Fund by £2 million a year. In addition, maternity payments (which are outside the cash limit) will go up from £85 to £100, at an estimated cost of £3 million a year.

SOCIAL FUND

(ii) Social fund only a small part of total social security programme of over £50 billion, up 36 per cent in real terms since 1978-79. Further real increases in benefit expenditure are provided for in the new plans, including more help for disabled and less well off families.

JPM

J P MCINTYRE

paul/nov.15.1

PERSONAL PENSIONS: £3 BILLION "GIVEAWAY"

Line to take on following points (if raised)

(i) **Incentives will cost over £3 billion by 1993**

Total cost of incentives will not be known until 1993 when incentive expires and we know how many people have qualified. [NOT FOR USE: On basis of applications so far, £3 billion is unlikely to be far wrong.]

(ii) **Cost so far**

Cost of incentives in 1989-90 about £800 million. Cost of both incentives and standard rebates in 1989-90 about £2,700 million, about £1,900 million higher than assumed in Budget forecast.

(iii) **Government seriously underestimated cost**

No one expected personal pensions to be such an enormous success. Higher take-up inevitably means a larger loss of government revenue. But long term effect will be to reduce cost of SERPS.

(iv) **Money should have been spent on higher benefits**

No. This money is being invested for pensions in the future. Could not also be used to pay for higher benefits now. In any case, government has announced real increases in benefits for 1½ million less well off families and ½ million long term sick and disabled.

(v) **Optants for personal pensions will contract back into SERPs, so no savings for Government in long term anyway**

This is wrong. Even if some people do contract back in, their SERPS entitlements will be reduced.

(vi) **Means unintended loosening of fiscal policy**

No. True that, other things being equal, PSDR is reduced. But Autumn Statement projects PSDR of £12½ billion in 1989-90, only a little below Budget forecast. [NB: £12½ billion figure not for use before Autumn Statement.] Very tight fiscal policy by any standards. In any event, national insurance reductions for personal pensions are being invested to pay for future pensions, not spent on consumption.

PERSON - AC PENSIONS

Factual

(i) **2 per cent incentive**

For people who contract out of SERPS, there is a standard rebate on national insurance contributions of 5.8 per cent of earnings between the lower earnings limit (currently £43 a week) and the upper earnings limit (£325); 2 per cent of this is the employee rebate and 3.8 per cent the employer rebate. In addition, there is a temporary special incentive of 2 per cent for those opting for personal pensions and for those in new contracted out schemes. Those opting out before April 1989 could have the incentive backdated to 1987-88 as well as 1988-89. The incentive will run until 1992-93 (inclusive), a maximum of 6 years. Together, the standard rebate and the 2 per cent incentive make up the "minimum contributions" to personal pensions; these are paid direct by DSS to personal pension providers (insurance companies etc) out of the national insurance fund.

(ii) **Treatment in national accounts etc**

Incentives, like the standard rebate, are treated as revenue forgone. This is because they represent a reduction in national insurance contributions, in return for people choosing to opt out of SERPS. [Add only if necessary: Although minimum contributions are paid out of the NIF, this is for the convenience of employers and pension providers. The underlying reality is that optants are paying lower NICs in return for contracting out. Would not therefore be appropriate to treat incentives - or standard rebates - as public expenditure.]

(iii) **Take-up of personal pensions**

3.3 million so far. 3.15 million were able to backdate incentives to 1987-88 and 1988-89.

(iv) **Costs of incentives**

£800 million so far. Represents cost of incentives for 1987-88 and 1988-89.

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238
Facsimile: 270 5244
Telex: 9413704

15 November 1989

AUTUMN STATEMENT : PUBLIC EXPENDITURE PLANS

This Press Notice provides details of the Government's expenditure plans announced by the Chancellor of the Exchequer to the House of Commons today. A fuller account of the new plans will appear in the printed Autumn Statement, which will be published on 22 November.

Trends in Spending

Table 1 and Chart 1 show trends in the ratio of general government expenditure (GGE) excluding privatisation proceeds, to GDP. **Table 2** shows how the ratios in the new plans compare with those projected in previous plans. **Table 1** also shows trends in public spending in real terms.

Main Points

- Government spending (excluding privatisation proceeds) fell as a proportion of national income from 46¾ per cent in 1982-83 to under 40 per cent last year. In the current year, it is expected to be 38¾ per cent, lower than the 39¼ per cent previously expected.

- The ratios in 1990-91 and 1991-92 will be 39 per cent and 38¾ per cent respectively, unchanged from last year's Autumn Statement. This implies a slight rise from this year's

unexpectedly low level before the downward trend continues. By 1992-93 the ratio is expected to reach 38½ per cent, its lowest level since 1965-66, and 8 percentage points lower than ten years previously.

- Compared with the levels projected in last year's Autumn Statement, GGE is expected to be £5½ billion higher in 1990-91, and £6¼ billion higher in 1991-92.

- In real terms, the level of GGE (excluding privatisation proceeds) in 1990-91 will be only 2 per cent higher than it was in 1984-85.

- Between 1988-89 and 1992-93 real GGE (excluding privatisation proceeds) will rise by an average 1¾ per cent a year, the same as the rate from 1988-89 to 1991-92 projected in last year's Autumn Statement. This compares with 1¼ per cent over the decade to 1988-89, and 3 per cent over the decade to 1978-79.

The new plans

The new definition of the planning total, and new arrangements for local government finance are described in the Annex (behind the main tables).

Table 3 shows the Government's expenditure plans for the next three years together with projections of GGE and the estimated path of the planning total on the new definition from 1984-85 to 1989-90. Central Government's own spending is shown separately by department. **Table 4** gives the same information in real terms. **Chart 2** shows GGE and the planning total in real terms (on old and new definitions) since 1970-71.

Changes in central government's own spending from previous plans are shown in **Table 5**. A detailed breakdown of central government support to local authorities is given in **Tables 6, 7 and 8**. Information about public corporations, including changes from previous plans, is given in **Table 9 and 10**.

Table 11 gives a departmental breakdown of the new planning total, with central government support to local authorities and the financing requirements of public corporations attributed to their respective departments.

Main points

- The public expenditure planning total (on the new definition) has been set at £179 billion in 1990-91. Planning totals for the following two years have been set at £192.3 billion and £203.4 billion. Privatisation proceeds are £5 billion in each year.

- The planning totals include Reserves of £3/6/9 billion.

- The new plans provide for further real growth in spending on priority areas.

  - Spending on the **NHS in the UK** will rise by £2,400 million between 1989-90 and 1990-91. This provides funds for the NHS review in addition to the resources needed to meet the continuing growth in patient services. The increase in resources (after taking account of further cost improvement savings and receipts from income generation schemes) will be £2,600 million (or 5½ per cent in real terms).

  - Provision for **transport** will rise substantially. Compared with previous plans, there are additions of over £400 million a year for national roads. Spending on national roads will double from £1 billion in 1988-89 to almost £2 billion in 1992-93. Extra financing of about £400-£500 million a year is being made available to British Rail and London Transport.

  - The plans provide £250 million over the next two years for the new **homelessness** package announced today by the Secretary of State for the Environment. Central Government support for the provision of new homes by housing

associations will more than double from £800 million in 1989-90 to £1,700 million in 1992-93.

- There is full provision for the benefit increases announced by the Secretary of State for Social Security on 25 October, including real improvements in benefits for **sick and disabled** people, and for **less well off families**. Total spending on social security is expected to be £55.6 billion in 1990-91, an increase of £3 billion compared with 1989-90.

- Resources available for **higher education** will rise by about £500 million between 1989-90 and 1990-91, after taking account of the reduction in rates payable by the institutions concerned. This includes provision for the continuing growth in the number of students, which is already at record levels, and the costs of the Government's proposals on top-up loans.

- About £1½ billion has been added to planned **capital spending** by central government and public corporations in 1990-91. This represents a real increase of around 10 per cent compared with 1989-90.

- The new plans provide central Government support for local authority current and capital spending through grants, payments of national non-domestic rates and credit approvals. They include measures to ease the transition from rates to community charges, costing nearly £700 million in 1990-91, with further substantial sums in each of the following two years.

- Further real growth in spending in priority areas has been made possible by reduced requirements elsewhere, by increased efficiency in programmes generally, and by the expected continued decline in the burden of debt interest.

Estimated outturn for 1989-90

Tables 12 and 13 show the estimated outturn for the current year,

1989-90, by department and by spending authority. The plans were set on the old definition of the planning total.

- The planning total (on the old definition) was set at £167.1 billion, with a Reserve of £3½ billion.

- Expected claims on this Reserve are £4.6 billion, mostly due to overspending by local authorities (£2.7 billion), and lower privatisation proceeds (£0.75 billion).

- The estimated outturn for 1989-90 is £168.2 billion, £1.1 billion (¾ per cent) above plan.

Attachments:

Tables 1-13
Charts 1-2
Annex : New planning total and new arrangements for local authority finance
Tables A1-A3

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01-270 5238

89/89

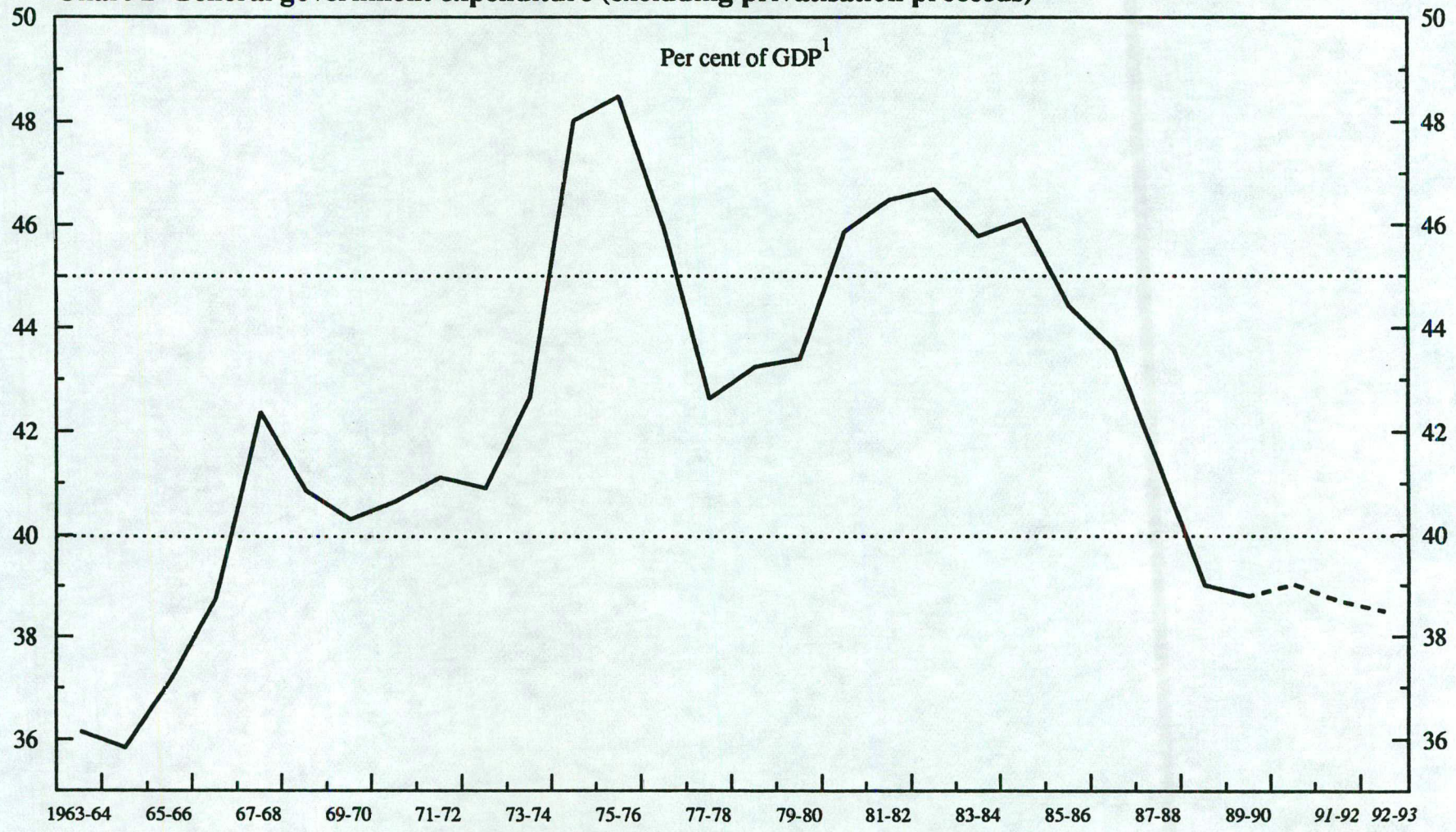
Table 1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP[2]	General government expenditure (excluding privatisation proceeds)
	Cash (£ billion)	Real terms[1,2] (£ billion)	(£ billion)	(Per cent of GDP)[2]
1963-64	11.3	94.7	31.4	36¼
1964-65	12.3	98.0	34.2	35¾
1965-66	13.6	103.8	36.6	37¼
1966-67	15.1	110.2	38.9	38¾
1967-68	17.5	124.3	41.2	42½
1968-69	18.2	123.7	44.6	40¾
1969-70	19.3	124.6	48.0	40¼
1970-71	21.6	128.7	53.2	40¾
1971-72	24.4	132.8	59.3	41
1972-73	27.6	139.6	67.6	41
1973-74	32.0	150.6	74.9	42¾
1974-75	42.9	169.3	89.3	48
1975-76	53.8	169.0	111.0	48½
1976-77	59.6	165.1	129.7	46
1977-78	64.4	156.8	151.1	42¾
1978-79	75.0	164.8	173.4	43¼
1979-80	90.3	170.1	208.1	43½
1980-81	108.8	173.1	237.2	45¾
1981-82	121.0	175.4	260.4	46½
1982-83	133.1	179.8	284.9	46¾
1983-84	141.6	182.8	309.2	45¾
1984-85	152.6	187.7	331.1	46
1985-86	160.8	187.7	361.9	44½
1986-87	168.9	190.8	387.7	43½
1987-88	177.7	190.5	429.5	41¼
1988-89	185.7	185.7	476.1	39
1989-90	200.5	187.4	517	38¾
1990-91	215.4	191.7	552	39
1991-92	227.2	195.4	587	38¾
1992-93	239.1	199.6	621	38½

1 Cash figures adjusted to 1988-89 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by 7 per cent in 1989-90, and by 5, 3½ and 3 per cent respectively in the years 1990-91 to 1992-93.

2 To avoid discontinuities in the series, GDP at market prices and the GDP deflator do not take account of the effect on GDP of the change from rates to the community charge in England and Wales from April 1990.

Chart 1 General government expenditure (excluding privatisation proceeds)



1. See footnote 2 to Table 1.

Table 2 General government expenditure[1]; plans and outturn

per cent of GDP[2]

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
March 1985 FSBR[3]	46¼	45¾	44	43				Plans	
January 1986 White Paper (Cmnd 9702)	46¼	45	44	43	42¼		Outturn		
January 1987 White Paper (Cm 56)	46¼	44¾	44½	44	42¾	42¼			
January 1988 White Paper (Cm 288)	46¼	44½	44	42½	42	41¾	41¼		
January 1989 White Paper (Cm 621)	46¼	44½	43¾	41¾	39¾	39¼	39	38¾	
This Autumn Statement	46	44½	43½	41¾	39	38¾[4]	39	38¾	38½

1 Excluding privatisation proceeds.

2 See footnote 2 to Table 1.

3 Financial Statement and Budget Report.

4 Estimated.

Table 3 Planning total and general government expenditure [1, 2, 3]

£ million

	Outturn					Estimated Outturn	New Plans		
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Central government's own expenditure	**93,188**	**99,551**	**106,104**	**111,188**	**116,330**	**126,500**	**137,800**	**145,300**	**152,200**
of which:									
Ministry of Defence	17,108	17,929	18,168	18,853	19,073	20,310	21,200	22,350	23,430
FCO-Diplomatic wing	593	608	648	687	739	840	890	940	970
FCO-Overseas Development Administration	1,175	1,211	1,271	1,291	1,507	1,570	1,680	1,780	1,850
Ministry of Agriculture, Fisheries and Food [4]	1,808	2,266	1,578	1,790	1,559	1,560	1,910	2,120	2,220
Trade and Industry [5]	1,154	1,065	1,838	933	1,672	1,210	1,220	1,090	1,000
Export Credits Guarantee Department	532	345	288	151	109	340	240	70	-30
Energy [6]	484	860	894	553	538	460	450	410	410
Department of Employment	3,026	3,154	3,586	3,634	3,587	3,530	3,460	3,340	3,370
Department of Transport	1,154	1,218	1,269	1,379	1,405	1,970	2,310	2,410	2,510
DOE-Housing	1,145	1,188	1,305	1,303	1,376	1,540	2,250	2,560	2,680
DOE-Other environmental services and Ordnance Survey [7]	285	285	328	473	529	550	600	550	490
DOE-PSA Services							30	0	-10
DOE-Local government [8]							40	40	40
Home Office (including Charity Commission)	920	999	1,072	1,184	1,364	1,670	1,910	1,870	1,880
Lord Chancellor's and Law Officers' departments [9]	512	573	655	777	902	1,120	1,270	1,380	1,470
Department of Education and Science	2,247	2,356	2,455	2,696	2,961	4,310	4,580	4,460	4,590
Office of Arts and Libraries	270	288	343	368	414	440	490	520	540
Department of Health and Office of Population Censuses and Surveys	13,435	14,200	15,209	16,672	18,431	20,010	22,040	23,350	24,470
Department of Social Security	35,699	38,741	41,700	43,578	44,473	47,200	52,000	56,200	59,500
Scotland [10]	2,959	3,152	3,319	3,466	3,827	4,010	4,420	4,620	4,760
Wales [10]	1,249	1,333	1,453	1,546	1,730	1,890	2,120	2,200	2,260
Northern Ireland [10]	3,615	3,860	4,202	4,471	5,142	5,520	5,750	6,050	6,290
Chancellor of the Exchequer's departments	2,640	2,875	3,217	3,471	3,713	4,160	4,620	4,880	5,140
Cabinet Office, Privy Council Office and Parliament	202	220	228	251	274	320	370	380	400
European Communities	974	822	1,079	1,661	1,006	2,030	1,870	1,670	1,990
Central government support to local authorities [3,10]	**30,707**	**31,083**	**33,286**	**35,654**	**36,450**	**38,100**	**41,800**	**43,800**	**44,900**
Financing requirements of public corporations [10]	**4,981**	**2,634**	**1,038**	**793**	**-183**	**1,540**	**1,390**	**2,310**	**2,320**
Reserve							3,000	6,000	9,000
Privatisation proceeds	-2,050	-2,707	-4,460	-5,140	-7,065	-4,250	-5,000	-5,000	-5,000
Adjustment [11]						-200			
New planning total [12]	**126,827**	**130,561**	**135,968**	**142,495**	**145,532**	**161,700**	**179,000**	**192,300**	**203,400**
Local authority self-financed expenditure [13]	7,881	8,334	8,711	8,999	10,161	13,200	12,000	12,000	12,500
Central government debt interest	14,313	16,052	16,447	17,032	17,597	17,300	15,500	14,000	13,500
Accounting adjustments	1,532	3,130	3,355	3,997	5,304	4,100	4,500	4,000	4,500
General government expenditure	**150,553**	**158,077**	**164,481**	**172,523**	**178,594**	**196,300**	**210,400**	**222,200**	**234,100**

13,200
-1.5
11,700
-3
8,700

3,300/m.

Footnotes to Table 3

1 The rounding and other conventions used in this table and in Tables 5, 7, 8, 9, 11, 12, 13 and A2 are as follows: departmental totals are rounded to the nearest £10 million (except for social security, which is rounded to £100 million); the planning total, spending sector totals (except public corporations) and general government expenditure are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Local authority self financed expenditure, debt interest and other national accounts adjustments for future years are rounded to the nearest £500 million. Outturn figures for 1989-90 have been rounded similarly to reflect their provisional nature, but with items between the planning total and general government expenditure rounded to £100 million. The changes and totals are based on the unrounded figures. They may therefore differ from the changes and sums of the rounded figures. Some figures may be subject to detailed technical amendment before the publication of the 1990 public expenditure White Paper.

2 Changes in the treatment of certain elements of expenditure - other than changes arising from the move to the new planning total and minor changes of classification and allocation - are described in footnote 1 to Table A3.

3 Proxies have been used for some of the new local authority elements of the planning total for years before 1990-91: see footnotes 1 and 8 to Table 6.

4 Includes Intervention Board for Agricultural Produce and Forestry Commission.

5 Includes Office of Fair Trading and Office of Telecommunications.

6 Includes Office of Gas Supply and, from 1990-91, Office of Electricity Regulation.

7 Includes Office of Water Services and Property Services Agency up to 1989-90. From 1990-91 includes Property Holdings.

8 The central government component of DOE-Local government comprises non-domestic rate collection costs.

9 Includes the Crown Prosecution Service, the Crown Office, the Northern Ireland Court Service, the Serious Fraud Office, the Land Registry, the Public Record Office and the Treasury Solicitor's Department.

10 As in former years, the decisions of the Secretaries of State for Scotland, Wales and Northern Ireland on the distribution of resources within their responsibilities will be shown in the public expenditure White Paper. In the analyses presented here a notional split between and within spending sectors has been assumed, taking account of the pattern of expenditure in 1989-90.

11 An adjustment for the difference between the assessment of the likely outturn for 1989-90 and the sum of the other items shown.

12 Plans for years up to 1989-90 were set using the old planning total: outturn data on this basis for 1988-89 and 1989-90 are shown in Tables 12, 13 and A2.

13 Figures shown for local authority self-financed expenditure, net of capital receipts, are derived by deducting central government support for local authorities from the following figures for total local authority expenditure, including debt interest: £38½ billion, £39½ billion; £42 billion, £44½ billion £46½ billion, £51½ billion, £53½ billion, £55½ billion and £57½ billion for 1984-85 to 1992-93 respectively. No adjustments have been made for changes in local authority functions over this period. This affects, particularly, comparisons between 1988-89 and 1989-90 and, to a lesser extent, between 1989-90 and 1990-91.

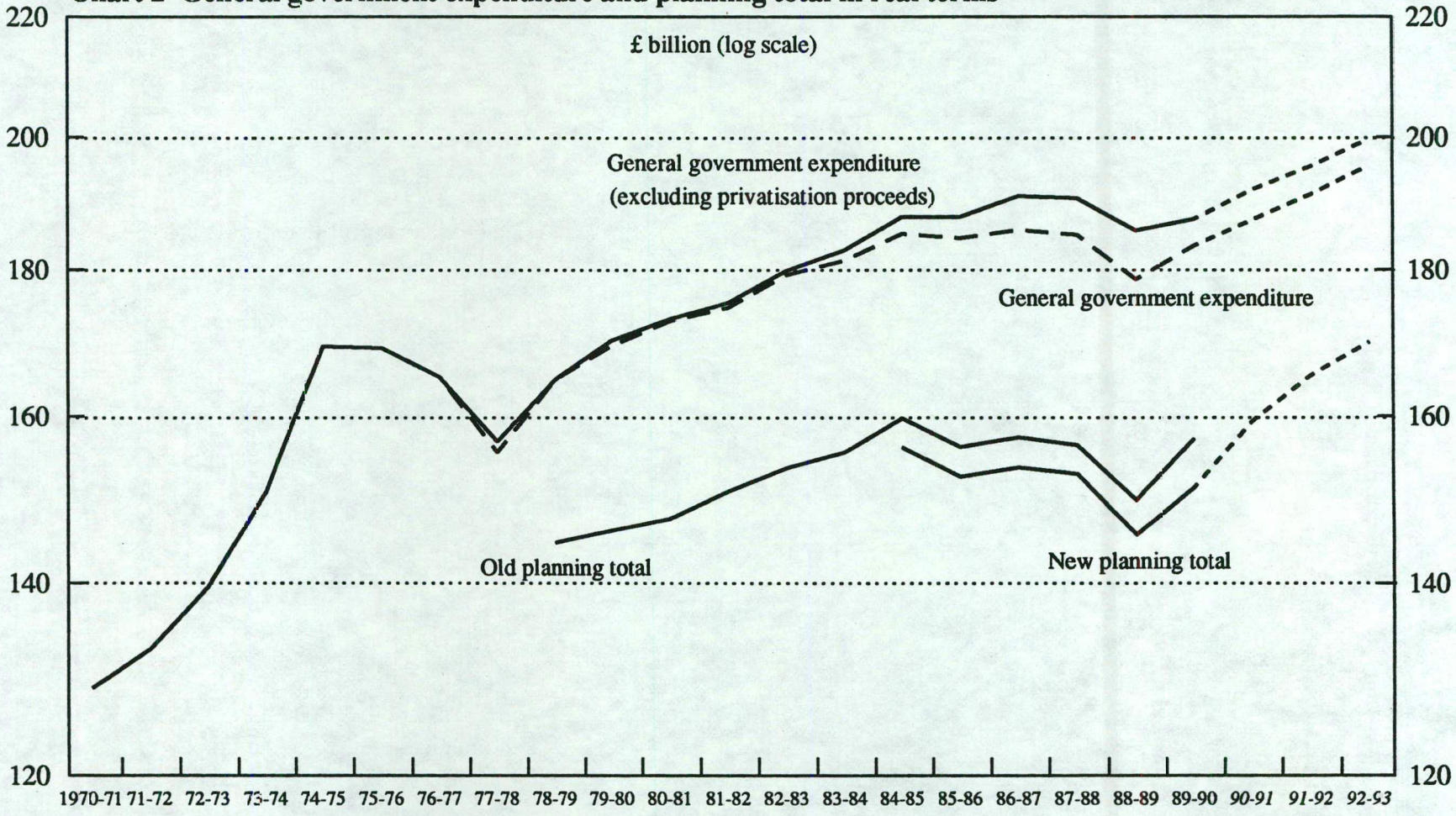
Table 4 Planning total and general government expenditure in real terms[1,2]

£ billion

	Outturn					Estimated Outturn	New Plans		
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Central government's own expenditure	**114.6**	**116.2**	**119.8**	**119.3**	**116.3**	**118.3**	**122.6**	**124.9**	**127.1**
of which:									
Ministry of Defence	21.0	20.9	20.5	20.2	19.1	19.0	18.9	19.2	19.6
FCO-Diplomatic wing	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
FCO-Overseas Development Administration	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Ministry of Agriculture Fisheries and Food	2.2	2.6	1.8	1.9	1.6	1.5	1.7	1.8	1.9
Trade and Industry	1.4	1.2	2.1	1.0	1.7	1.1	1.1	0.9	0.8
Export Credits Guarantee Department	0.7	0.4	0.3	0.2	0.1	0.3	0.2	0.1	0.0
Energy	0.6	1.0	1.0	0.6	0.5	0.4	0.4	0.4	0.3
Department of Employment	3.7	3.7	4.0	3.9	3.6	3.3	3.1	2.9	2.8
Department of Transport	1.4	1.4	1.4	1.5	1.4	1.8	2.1	2.1	2.1
DOE-Housing	1.4	1.4	1.5	1.4	1.4	1.4	2.0	2.2	2.2
DOE-Other environmental services and Ordnance Survey	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.4
DOE-PSA Services							0.0	0.0	0.0
DOE-Local government							0.0	0.0	0.0
Home Office (including Charity Commission)	1.1	1.2	1.2	1.3	1.4	1.6	1.7	1.6	1.6
Lord Chancellor's and Law Officers' departments	0.6	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.2
Department of Education and Science	2.8	2.8	2.8	2.9	3.0	4.0	4.1	3.8	3.8
Office of Arts and Libraries	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Department of Health and Office of Population Censuses and Surveys	16.5	16.6	17.2	17.9	18.4	18.7	19.6	20.1	20.4
Department of Social Security	43.9	45.2	47.1	46.7	44.5	44.1	46.3	48.3	49.6
Scotland	3.6	3.7	3.7	3.7	3.8	3.7	3.9	4.0	4.0
Wales	1.5	1.6	1.6	1.7	1.7	1.8	1.9	1.9	1.9
Northern Ireland	4.4	4.5	4.7	4.8	5.1	5.2	5.1	5.2	5.3
Chancellor of the Exchequer's departments	3.2	3.4	3.6	3.7	3.7	3.9	4.1	4.2	4.3
Cabinet Office, Privy Council Office and Parliament	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
European Communities	1.2	1.0	1.2	1.8	1.0	1.9	1.7	1.4	1.7
Central government support to local authorities	**37.8**	**36.3**	**37.6**	**38.2**	**36.5**	**35.6**	**37.2**	**37.6**	**37.5**
Financing requirements of public corporations	**6.1**	**3.1**	**1.2**	**0.9**	**-0.2**	**1.4**	**1.2**	**2.0**	**1.9**
Reserve							2.7	5.2	7.5
Privatisation proceeds	-2.5	-3.2	-5.0	-5.5	-7.1	-4.0	-4.5	-4.3	-4.2
Adjustment						-0.2			
New planning total	**156.0**	**152.4**	**153.6**	**152.8**	**145.5**	**151.1**	**159.3**	**165.4**	**169.9**
Local authority self-financed expenditure	9.7	9.7	9.8	9.7	10.2	12.4	10.5	10.3	10.3
Central government debt interest	17.6	18.7	18.6	18.3	17.6	16.1	13.6	12.1	11.4
Accounting adjustments	1.9	3.7	3.8	4.3	5.3	3.8	3.8	3.3	3.9
General government expenditure	**185.2**	**184.6**	**185.8**	**185.0**	**178.6**	**183.4**	**187.3**	**191.1**	**195.5**

1 See footnotes to Table 3.
2 Real terms figures are cash figures adjusted to 1988-89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes to Table 1).

Chart 2 General government expenditure and planning total in real terms[1]



1. Cash figure adjusted to 1988-89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes to Table 1).

Table 5 Central government's own expenditure[1,2]

£ million

	Latest estimates of outturn			New plans			Changes from 1989 White Paper[3]		
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1990-91 plans	1991-92 plans	1992-93 plans	1989-90	1990-91	1991-92
Ministry of Defence	19,073	20,310	1,240	21,200	22,350	23,430	170	10	250
FCO-Diplomatic wing	739	840	100	890	940	970	40	50	60
FCO-Overseas Development Administration	1,507	1,570	60	1,680	1,780	1,850	60	80	110
Ministry of Agriculture, Fisheries and Food	1,559	1,560	0	1,910	2,120	2,220	-240	-170	-160
Trade and Industry	1,672	1,210	-460	1,220	1,090	1,000	-120	-80	-70
Export Credits Guarantee Department	109	340	230	240	70	-30	160	120	10
Energy	538	460	-80	450	410	410	-20	40	50
Department of Employment	3,587	3,530	-60	3,460	3,340	3,370	-150	-110	-220
Department of Transport	1,405	1,970	560	2,310	2,410	2,510	190	430	460
DOE-Housing	1,376	1,540	160	2,250	2,560	2,680	100	560	550
DOE-Other environmental services	529	550	20	600	550	490	20	60	50
DOE-PSA Services				30	0	-10		30	0
DOE-Local government				40	40	40		40	40
Home Office	1,364	1,670	300	1,910	1,870	1,880	-10	80	20
Lord Chancellor's and Law Officers' departments	902	1,120	220	1,270	1,380	1,470	20	80	120
Department of Education and Science	2,961	4,310	1,350	4,580	4,460	4,590	30	190	0
Office of Arts and Libraries	414	440	20	490	520	540	0	40	40
Department of Health	18,431	20,010	1,580	22,040	23,350	24,470	260	1,170	1,530
Department of Social Security	44,473	47,200	2,700	52,000	56,200	59,500	-300	700	1,800
Scotland	3,827	4,010	180	4,420	4,620	4,760	20	260	290
Wales	1,730	1,890	160	2,120	2,200	2,260	20	160	180
Northern Ireland	5,142	5,520	370	5,750	6,050	6,290	340	310	380
Chancellor's departments	3,713	4,160	450	4,620	4,880	5,140	10	290	350
Other departments	274	320	40	370	380	400	10	30	30
European Communities	1,006	2,030	1,020	1,870	1,670	1,990	60	-80	90
Total	116,330	126,500	10,200	137,800	145,300	152,200	700	4,300	6,000

1 See footnotes to Table 3

2 Figures exclude finance for public corporations and support for local authorities

3 Plans as set out in the last public expenditure White Paper, adjusted for changes of classification and allocation, including those described in footnote 1 to Table A3

Table 6 Central government support for local authorities

£ million

	Latest estimates of outturn			New plans		
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1990-91	1991-92	1992-93
Non-domestic rates payments[1]						
England	8,788	9,620	830	10,430	)	
Scotland	1,290	1,220	-70	1,190	)	
Wales	368	410	50	450	)	
Revenue support grants[2]					) 25,940[3]	26,670[4]
England	9,824	9,610	-210	9,490	)	
Scotland	2,007	2,340	330	2,450	)	
Wales	1,015	1,050	30	1,130	)	
Transitional grants[5]				670	840	540
Other current grants[5,6]	8,918	9,800	900	10,900	11,700	12,400
Capital grants[6,7]	544	620	80	1,300	1,300	1,300
Credit approvals[6,7,8]	3,697	3,410	-290	3,800	4,000	4,000
TOTAL	36,450	38,100	1,600	41,800	43,800	44,900
of which AEF[9]	26,079	27,500	1,400	28,800	30,100	30,800

1 For years before 1990-91 the estimated yield of non-domestic rates has been used as a proxy for non-domestic rates payments.

2 Rate Support Grant up to 1 April 1989 in Scotland and 1 April 1990 in England and Wales.

3 Comprising £20,550 million (England), £3,760 million (Scotland), £1,630 million (Wales).

4 Comprising £21,130 million (England), £3,860 million (Scotland), £1,680 million (Wales).

5 Transitional and other current grants are shown in more detail in Table 7.

6 See footnote 10 to Table 3

7 Table 8 shows a departmental breakdown of capital grants and credit approvals.

8 Includes net capital allocations in Scotland. For years before 1990-91 capital allocations less capital grants has been used as a proxy for credit approvals in England and Wales.

9 Including non-domestic rates in Scotland.

Table 7 Other current grants to local authorities by department[1]

£ million

	Latest estimates of outturn			New plans		
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1990-91	1991-92	1992-93
Ministry of Agriculture, Fisheries and Food[2]	29	-50	-80	-110	-120	-120
Trade and Industry	0	0	0	10	10	10
Department of Employment	256	350	90	320	330	340
Department of Transport	2	0	0	0	0	0
DOE-Housing[3]	22	20	0	2,260	2,410	2,550
DOE-Other environmental services	20	20	0	20	20	20
DOE-Local government[4]	169	250	80	520	750	490
Home Office	2,226	2,430	200	2,690	2,870	2,990
Department of Education and Science[4]	904	1,020	120	1,550	1,840	1,860
Department of Health	25	40	20	50	30	30
Department of Social Security[5]	4,958	5,400	400	3,500	3,700	4,100
Scotland[4,6]	232	250	20	400	380	380
Wales[3,4,6]	33	40	0	220	230	230
Northern Ireland[6]	41	40	0	50	50	50
TOTAL	8,918	9,800	900	11,500	12,500	12,900

1 Comprises mainly specific grants in support of local authorities' current expenditure. Excludes Revenue Support Grant and non-domestic rates payments, which provide the bulk of this support. These are shown in Table 6.

2 Includes Intervention Board for Agricultural Produce, and payments from local authorities to the National Rivers Authority for land drainage.

3 Includes central government support for rent rebates from 1990-91.

4 Includes transitional grants to assist with the transfer of responsibility for education to Inner London boroughs (included in Department of Education and Science), and with the introduction of the community charge (included in DOE-Local Government, Scotland and Wales), as follows:

	1990-91 £ million	1991-92 £ million	1992-93 £ million
Inner London education grant	100	70	50
Low rateable values grant	87)	490	283
Area protection grant	30)		
Transitional relief	449	276	212
Total	666	836	545

5 Includes central government support for rent rebates in years prior to 1990-91, community charge benefit grant in Scotland from 1989-90, and in England and Wales from 1990-91, and grants for rate rebates in prior years.

6 See footnote 10 to Table 3.

Table 8 Credit approvals[1] and capital grants in support of local authority capital expenditure

£ million

	Latest estimates of outturn[2]		New Plans		
	1988-89 outturn	1989-90 estimated outturn	1990-91	1991-92	1992-93
Ministry of Agriculture, Fisheries and Food[3]	29	30	30	40	40
Trade and Industry[3]	2	0	0	0	0
Department of Employment[3]	5	0	0	0	0
Department of Transport	682	640	760	840	830
DOE-Housing	1,341	1,110	1,930	1,900	1,830
DOE-Other environmental services[3]	450	470	430	450	470
Home Office	120	180	240	270	280
Department of Education and Science	405	370	460	470	470
Office of Arts and Libraries[3]	17	20	0	0	0
Department of Health	81	80	90	100	110
Scotland[4]	787	790	790	830	890
Wales[4]	316	340	400	410	430
Northern Ireland[4]	5	10	10	10	10
TOTAL	4,241	4,030	5,100	5,300	5,400
of which					
capital grants	544	620	1,300	1,300	1,300
credit approvals	3,697	3,410	3,800	4,000	4,000

1 Net capital allocations in Scotland.

2 Proxies have been used for credit approvals for years before 1990-91: see footnote 8 to Table 6.

3 For 1990-91 and later years DOE are responsible for issuing credit approvals for local environmental services within the English local authority block, for MAFF (smallholdings), DTI, Employment and Office of Arts and Libraries.

4 See footnote 10 to Table 3

Table 9 Public corporations[1]

£ million

	Latest estimates of outturn			New plans			Changes from 1989 White Paper[2]		
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1990-91 plans	1991-92 plans	1992-93 plans	1989-90	1990-91	1991-92
FCO-Overseas Development Administration	34	50	20	30	30	30	20	0	0
Ministry of Agriculture, Fisheries and Food	19	10	-10	0	0	0	-10	0	0
Department of Trade and Industry	-368	-70	300	50	-70	-80	0	90	10
Department of Energy[3]	-957	-310	650	-610	260	270	430	310	0
Department of Employment	2	0	0	0	0	0	0	0	0
Department of Transport	654	990	340	1,160	1,240	1,260	220	400	500
DOE-Housing	-102	-110	-10	-170	-150	-140	-70	-160	-190
DOE-Other environmental services	-117	290	400	330	250	250	200	100	0
Department of Health	-49	0	50	0	0	0	0	0	0
Scotland[3]	321	370	50	330	490	500	10	100	30
Wales	105	130	30	120	120	120	10	20	10
Northern Ireland	282	190	-90	160	140	120	-60	0	-10
Chancellor's departments	-7	0	0	-10	0	0	0	0	0
Total	-183	1,540	1,720	1,390	2,310	2,320	760	860	330
of which									
Nationalised industries	-471	670	1,140	520	1,510	1,510	700	910	530
Other public corporations	288	860	570	870	800	800	60	-60	-200

1 See footnotes to Table 3. For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external finance limits for 1990-91 to 1992-93 see Table 10.

2 See footnote 3 to Table 5.

3 For nationalised industries to be privatised, provision is included as follows: Water (England and Wales) up to and including 1989-90; Scottish Bus Group (Scotland) and Electricity (England, Wales and Scotland) up to and including 1990-91. Precise external financing requirements will depend on the timing of privatisations.

Table 10 External financing requirements for the nationalised industries, 1990-91 to 1992-93

£ million

	1990-91	1991-92	1992-93
British Coal	385	270	280
British Railways Board	646	760	760
London Regional Transport	448	440	430
Civil Aviation Authority	67	40	70
British Shipbuilders	8	0	-20
British Waterways Board	49	50	50
Caledonian MacBrayne Ltd	7	10	10
Post Office	38	-60	-70
Scottish Bus Group	-7		
Electricity (England and Wales)[1]	-1,000		
Electricity (Scotland)[1]	-122		
Total	520	1,510	1,510

1 Allowance for external financing for Electricity. Figures will depend on actual timing of privatisations in 1990 and 1991.

Table 11 Public expenditure planning total by department [1]

£ million

	Latest estimates of outturn			New plans		
	1988-89 Outturn	1989-90 Estimated outturn	Changes 1988-89 to 1989-90	1990-91	1991-92	1992-93
Ministry of Defence	19073	20310	1240	21200	22350	23430
FCO-Diplomatic wing	739	840	100	890	940	970
FCO-Overseas Development Administration	1541	1620	80	1710	1810	1880
Ministry of Agriculture, Fisheries and Food	1636	1540	-90	1830	2040	2140
Trade and Industry	1306	1150	-160	1280	1030	930
Export Credits Guarantee Department	109	340	230	240	70	-30
Energy	-419	150	570	-160	670	670
Department of Employment	3850	3880	30	3790	3680	3720
Department of Transport	2743	3600	860	4230	4490	4600
DOE-Housing[2]	2638	2560	-80	6270	6720	6920
DOE-Other environmental services and Ordnance Survey	882	1320	440	1380	1270	1220
DOE-PSA Services				30	0	-10
DOE-Local government[3]	18782	19480	690	20480	21340	21670
Home Office (including the Charity Commission)	3710	4280	570	4840	5010	5160
Lord Chancellor's and Law Officers' departments	902	1120	220	1270	1380	1470
Department of Education and Science	4270	5710	1440	6590	6770	6920
Office of Arts and Libraries	431	460	30	490	520	540
Department of Health and Office of Population Censuses and Surveys	18488	20130	1640	22180	23480	24610
Department of Social Security[4]	49430	52600	3100	55600	59900	63500
Scotland[3]	8464	8980	520	9570	10080	10390
Wales[2,3]	3567	3860	290	4460	4590	4720
Northern Ireland	5469	5760	290	5970	6240	6460
Chancellor of the Exchequer's departments	3706	4160	450	4610	4880	5140
Cabinet Office, Privy Council Office and Parliament	274	320	40	370	380	400
European Communities	1006	2030	1020	1870	1670	1990
Reserve				3000	6000	9000
Privatisation proceeds	-7065	-4250	2820	-5000	-5000	-5000
Adjustments		-200	-200			
New planning total	**145532**	**161700**	**16200**	**179000**	**192300**	**203400**

1 Departmental totals include central government support for local authorities and financing requirement of public corporations. For departmental groupings and other conventions see footnotes to Table 3.

2 See footnote 3 to Table 7.

3 DOE-Local government includes Revenue Support Grant and non-domestic rate payments in England and certain transitional grants associated with the change from rates to the new system of local authority finance (see footnote 4 to Table 7). Comparable items are included in the figures for Scotland and Wales.)

4 See footnote 5 to Table 7.

Table 12 Old planning total, 1988-89 and 1989-90[1]

£ million

	Latest estimates of outturn			
	1988-89 Outturn	1989-90 Estimated Outturn	Changes 1988-89 to 1989-90	1989-90 Changes from 1989 White Paper[2]
Ministry of Defence	19,073	20,310	1,240	170
FCO-Diplomatic wing	712	810	100	40
FCO-Overseas Development Administration	1,541	1,620	80	80
Ministry of Agriculture, Fisheries and Food	1,772	1,690	-80	-260
Department of Trade and Industry	1,393	1,250	-150	-110
Exports Credit Guarantee Department	109	340	230	160
Department of Energy	-420	140	560	410
Department of Employment	3,919	3,880	-30	-160
Department of Transport	4,721	5,900	1,180	550
DOE-Housing	1,819	2,430	610	720
DOE-Other environmental services and Ordnance Survey	3,783	5,140	1,360	780
Home Office (including the Charity Commission)	6,304	7,170	860	260
Lord Chancellor's and Law Officers' departments	893	1,110	220	30
Department of Education and Science	18,436	20,230	1,800	660
Office of Arts and Libraries	974	1,060	90	80
Department of Health and Office of Population Censuses and Surveys	21,764	23,740	1,980	560
Department of Social Security	47,162	50,200	3,100	-700
Scotland	8,649	9,310	660	340
Wales	3,549	3,910	360	130
Northern Ireland	5,532	5,810	280	290
Chancellor of the Exchequer's departments	3,706	4,160	450	10
Cabinet Office, Privy Council and Parliament	274	320	40	10
European Communities	1,006	2,030	1,020	60
Reserve				-3,500
Privatisation proceeds	-7,065	-4,250	2,820	750
Adjustment		-200	-200	-200
Old planning total	149,605	168,200	18,600	1,100

1 See footnotes 1, 4-7, 9 and 11 to Table 3.

2 Adjusted for minor classification changes other than those described in footnote 1 to Table A3.

Table 13 Old planning total: differences between plans and estimated outturn by spending sector, 1989-90

£ million

	Plans in 1989 White Paper[1]	Estimated outturn	Changes from 1989 White Paper[1]
Central government[2]	123,718	124,300	600
Local authority expenditure[2]			
- current	41,413	42,400	1,000
- capital	2,596	4,300	1,700
Public corporations	826	1,590	760
Reserve	3,500		-3,500
Privatisation proceeds	-5,000	-4,250	750
Adjustment[3]		-200	-200
Old planning total	**167,053**	**168,200**	**1,100**
General government gross debt interest	17,000	17,800	600
Other national accounts adjustments	9,500	10,300	900
General government expenditure	193,700	196,300	2,600
General government expenditure (excluding privatisation proceeds)	198,700	200,500	1,800

1 Adjusted for minor classification changes other than those described in footnote 1 to Table A3.

2 Excluding finance for public corporations.

3 See footnote 10 to Table 3.

ANNEX

NEW PLANNING TOTAL AND NEW ARRANGEMENTS FOR LOCAL AUTHORITY FINANCE

This Autumn Statement is the first to use the new planning total for public expenditure announced in July 1988 (Cm 441). This does not affect in any way the Government's strategic objectives for public spending which, as before, are expressed in terms of general government expenditure (GGE). The definition of GGE is unchanged.

2. This change is being made at the same time as the reform of local government finance in England and Wales, from 1 April 1990. A new system of local government finance in Scotland was introduced in April 1989. Further details are given in paragraphs 9-12 below.

3. Both changes are intended to distinguish more clearly between the responsibilities of central government and local government.

The new planning total

4. For operational purposes, the Government has for many years set a planning total against which it monitors and seeks to control departmental expenditure. The **old planning total** included expenditure which local authorities finance from their own resources, and for which local authorities are responsible. At the same time it did not score the grants which central Government settles and pays to local authorities.

5. The planning total has been redefined to include the elements of public expenditure for which central government is responsible. **In future** it will include central government support for local authorities through grants, non-domestic rate payments and credit approvals. Spending financed by local authorities from their own resources (including the community charge and the use

of capital receipts) will be excluded.

6. The planning total still includes central government's own expenditure, public corporations' financing requirements, privatisation proceeds, and a Reserve.

7. The new planning total also reflects a number of classification changes which have been made to bring the treatment of certain items of expenditure in line with the national accounts. These are described in Table A3, footnote 1.

Relationship between new and old definitions

8. The relationship between the old and new planning totals and GGE is as follows:

OLD	NEW
Central government's own expenditure	Central government's own expenditure
Public corporations	Public corporations
Local authorities spending (net of capital receipts)	Central government support for local authorities
- current	- Revenue Support Grant
- capital	- National non-domestic rate payments
	- Specific grants
	- Credit approvals
Privatisation proceeds	Privatisation proceeds
Reserve	Reserve
	New Planning Total
Old Planning Total	Local authority self-financed expenditure (net of capital receipts)
General government debt interest	Central government debt interest
Other adjustments	Other adjustments
General government expenditure	

Table A1 gives a run of figures, in both cash and real terms, for the old planning total, the new planning total, and GGE. The real terms series are also shown in Chart 2.

New System of Local Government Finance

9. Under the new arrangements for local government finance in England and Wales, the community charge will replace domestic rates, and the new national non-domestic rates (NNDR) will replace the present system of local business rates. NNDR payments will be pooled and redistributed to local authorities as an equal amount per chargepayer. Revenue Support Grant replaces the existing Rate Support Grant. Capital allocations have been replaced by credit approvals (ie permissions to borrow for capital spending). Separate arrangements apply in Scotland.

10. Local authorities **current** spending in England and Wales is supported by Aggregate External Finance (AEF). AEF comprises national non-domestic rate payments (NNDR), Revenue Support Grant and most specific grants. In Scotland, the corresponding Aggregate Exchequer Grant (AEG) excludes non domestic rate payments. Proposals for the total of AEF for 1990-91 were announced in July by the Secretaries of State for the Environment and for Wales, and AEG for Scotland was announced by the Secretary of State for Scotland.

11. Government support for local authority **capital** programmes will take the form of specific capital grants and credit approvals.

12. The new plans for central government support for local authorities are set out in Tables 6, 7 and 8.

Additional information on local authority expenditure

13. Table A2 gives the latest estimates of outturn for total local authority expenditure in 1988-89 and 1989-90, on the old definition of the planning total. It also shows changes from the 1989 White Paper.

14. For the forward years, the level of total spending will be for local authorities to decide, in the light of their own policies and the implications for the community charge. In order to determine a path for GGE, a projection has been made of total local authority expenditure (net of capital receipts). The difference between this projection and central government support for local authorities provides a broad measure of "self-financed" expenditure. This is spending which the authorities finance from their own resources, including the community charge, trading and other income, and changes in working balances as well as the use of accumulated and in year capital receipts. It is measured net of the inflow of capital receipts.

15. Details about the local authority current settlement in England were published in the consultation paper issued by the Department of the Environment on 6 November. This included the Government's assessment of Total Standard Spending in 1990-91, broken down between the main services. Total Standard Spending is the aggregate amount which the Government considers that it would be appropriate for local authorities to spend to provide a standard level of service.

16. Further details are available in departmental press notices.

<u>Comparison with previous plans</u>

17. Table A3 sets the new plans alongside those shown in the 1989 public expenditure White Paper (Cm 621) which were set in terms of the old definition of the planning total. The effects of classification changes introduced at the same time as the new planning total are separately identified.

18. The new plans can be compared with previous plans only in those areas where the new and old definitions overlap, ie central government's own expenditure, privatisation proceeds, and public corporations.

19. Such a comparison is not possible for local authority elements in the plans. Last year, central government support was

not part of the planning total, and decisions about central government grants and capital allocations were taken only in respect of 1989-90. In addition central government support now includes NNDR and credit approvals which did not exist under the old system.

Table A1 **Public expenditure 1978–79 to 1992–93**

	Planning total				General government expenditure[2]		GDP deflator
	Old definition[1]		New definition				
	Cash	Real[3]	Cash	Real[3]	Cash	Real[3]	(1988–89=100)
1978–79	65.7	144.6			75.0	164.8	45.5
1979–80	77.6	146.1			90.3	170.1	53.1
1980–81	92.7	147.4			108.8	173.1	62.9
1981–82	104.0	150.7			121.0	175.4	69.0
1982–83	113.6	153.5			133.1	179.8	74.0
1983–84	120.4	155.5			141.6	182.8	77.4
1984–85	129.8	159.7	126.8	156.0	152.6	187.7	81.3
1985–86	133.7	156.1	130.6	152.4	160.8	187.7	85.7
1986–87	139.3	157.3	136.0	153.6	168.9	190.8	88.5
1987–88	145.8	156.3	142.5	152.8	177.7	190.5	93.2
1988–89	149.6	149.6	145.5	145.5	185.7	185.7	100.0
1989–90	168.2	157.2	161.7	151.1	200.5	187.4	107.0
1990–91			179.0	159.3	215.4	191.7	112.4
1991–92			192.3	165.4	227.2	195.4	116.3
1992–93			203.4	169.9	239.1	199.6	119.8

1 Excluding the major classification changes made along with move to new planning total: see footnote 1 to Table A3.

2 Excluding privatisation proceeds

3 Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes to Table 1).

Table A2 Local authority expenditure in 1988-89 and 1989-90 (old planning total basis)[1,2]

£ million

	Latest estimates of outturn			
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1989-90 Changes from 1989 White Paper[3]
Ministry of Agriculture, Fisheries and Food	194	210	10	-10
Department of Trade and Industry	94	110	10	10
Department of Employment	137	140	0	0
Department of Transport	2,652	2,890	240	140
DOE-Housing	544	1,000	460	700
DOE-Other environmental services	3,371	4,310	940	560
Home Office	5,148	5,730	590	270
Department of Education and Science	15,462	15,920	460	630
Office of Arts and Libraries	560	620	60	80
Department of Health	3,382	3,730	350	310
Department of Social Security	3,837	4,300	500	-400
Scotland	4,510	4,940	430	300
Wales	1,715	1,890	170	100
Northern Ireland	840	900	60	0
Old planning total	42,445	46,700	4,200	2,700
of which:				
Current	39,588	42,400	2,800	1,000
Capital	2,857	4,300	1,400	1,700

1 Figures exclude debt interest and finance for public corporations.

2 See footnotes 1 and 4 to Table 3.

3 Adjusted for minor classification changes other than those described in footnote 1 to Table A3.

Table A3 Comparison of the new planning total and general government expenditure with the 1989 public expenditure White Paper (1990-91 and 1991-92)

£ billion

	1990-91		1991-92	
	White Paper	New Plans	White Paper	New Plans
Central government's own expenditure				
White Paper plans	131.2		136.9	
Classification changes[1]		+2.3		+2.4
Survey changes		+4.3		6.0
New plans		137.8		145.3
Public corporations:				
White Paper plans	0.6		2.0	
Classification changes[1]		-0.1		-0.1
Survey changes		+0.9		+0.3
New plans		1.4		2.3
Local authority current				
White Paper plan (expenditure)	43.1		44.7	
RSG and non-domestic rates		25.1		25.9
Other current grants		11.5		12.5
Local authority capital				
White Paper plan (net expenditure)	2.4		2.4	
Capital grants		1.3		1.3
Credit approvals		3.8		4.0
Privatisation proceeds	-5.0	-5.0	-5.0	-5.0
Reserve				
Old planning total	7.0		10.5	
New planning total		3.0		6.0
Old Planning total	179.4		191.6	
New planning total		**179.0**		**192.3**
Local authority self-financed expenditure (net of capital receipts)[2]		12		12
General government debt interest	16		15½	
Central government debt interest		15½		14
Other adjustments[3]	9½	4½	9	4
General government expenditure	**205**	**210½**	**216**	**222¼**

1 In addition to minor changes of classification and allocation the following changes have been introduced, bringing the planning total closer into line with the treatment in the national accounts: statutory sick pay and statutory maternity pay are now included in the new planning total; receipts from fines, fixed penalties and certain fees are now excluded from the planning total and treated as revenue; spending formerly included in local authority expenditure, on police, education and fire services in Northern Ireland, is now included in central government's own expenditure; expenditure of the National Rivers Authority financed by precepts on local authorities is now similarly treated; expenditure on certain educational initiatives of the Training Agency formerly treated as central government's own expenditure is now included in grants to local authorities; and local authority support for their airport and bus companies is now treated as local authority expenditure rather than public corporations' external finance.

2 In the new plans, local authority self-financed expenditure is derived by subtracting from a projection of total local authority expenditure the support made available by central government (ie the sum of the local authority components of the new planning total). Total local authority expenditure includes local authority debt interest payments to the market and to central government. In the 1989 White Paper local authority debt interest payments to the market were included in general government debt interest.

3 "Other adjustments" in the new plans are lower than in the White Paper because of the classification changes described in footnote 1 and because, to avoid double counting in general government expenditure, local authority debt interest payments to central government included in local authority expenditure are deducted.

ECONOMIC PROSPECTS FOR 1990

Summary

1 GDP is forecast to grow by 1 ¼ per cent in 1990. RPI inflation should fall to 5 ¾ per cent by the end of next year.

Demand and activity

2 After rapid growth of more than 4 per cent in both 1987 and 1988 the economy has slowed in 1989 in response to tighter monetary policy; GDP is likely to grow by 2 per cent this year. Growth would have been higher but for disruptions to North Sea oil production; non-oil GDP is forecast to rise by 3 per cent in 1989. Most of the slow-down in spending so far has occurred in the personal sector. In 1990 companies are also expected to adjust their spending after exceptionally strong growth in investment between 1986 and 1989.

Inflation

3 Retail price inflation is expected to be 7 ½ per cent in the fourth quarter of 1989. It is likely to remain above 7 per cent in the first half of 1990, but to fall to 5 ¾ per cent by the fourth quarter.

Labour market

4 Employment has continued to rise rapidly over the past year while unemployment has fallen sharply. With the slow-down in output growth, unemployment could level off in the coming months.

Trade and current account

5 The current account deficit is expected to be around £20 billion in 1989. It should fall in 1990 as domestic demand growth slows further.

World economy

6 World trade and GNP in the major economies have continued to grow rapidly in 1989, but are forecast to grow a little less strongly in 1990. Inflation in the major industrialised countries has picked up in 1989, but is forecast to moderate a little in 1990.

Assumptions

7 The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that both North Sea oil prices and sterling remain close to recent levels. The public sector debt repayment (PSDR) is forecast to be about £12 ½ billion in the current year. The forecast for 1990 assumes that the PSDR in 1990-91 will be the same as in the 1989 MTFS (£10bn, 1 ¾ per cent of GDP); the actual PSDR will be set in the 1990 Budget.

World economy

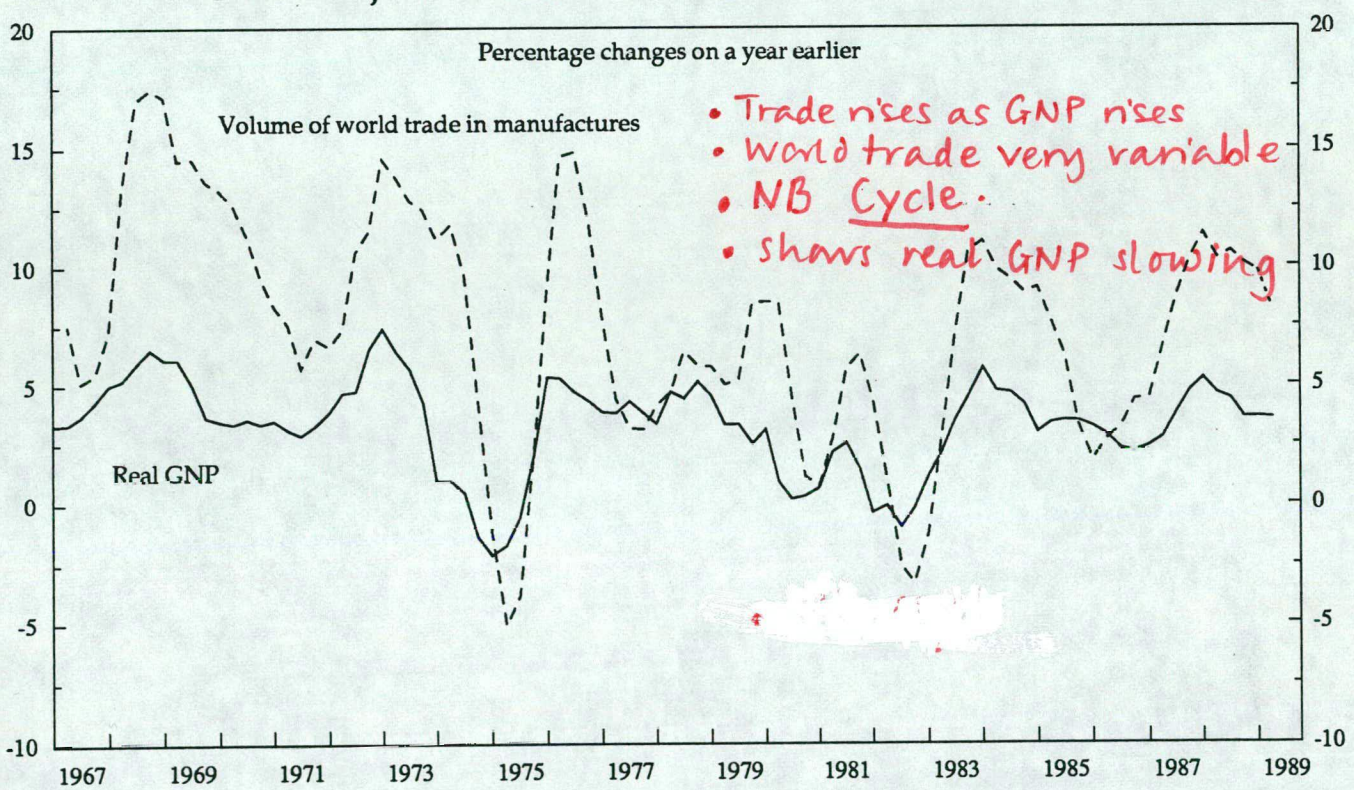
Recent developments

8 Inflationary pressures built up in the world economy during 1988 and the beginning of 1989, and as a result monetary policy has been tightened worldwide. Growth in North America and the UK slowed markedly in the first half of 1989, while it picked up slightly in continental Europe and Japan. Just as the North American and UK economies led the recovery in the world economy in 1987, with Japan and continental Europe picking up later , so too they may be leading the world economic slow-down. Average growth in the major economies has slowed from the rapid rate achieved in 1988, but has remained above the rate of increase of productive potential.

9 Growth of consumers' expenditure has fallen in most major economies following the tightening of monetary policy. Investment and exports have continued to expand rapidly.

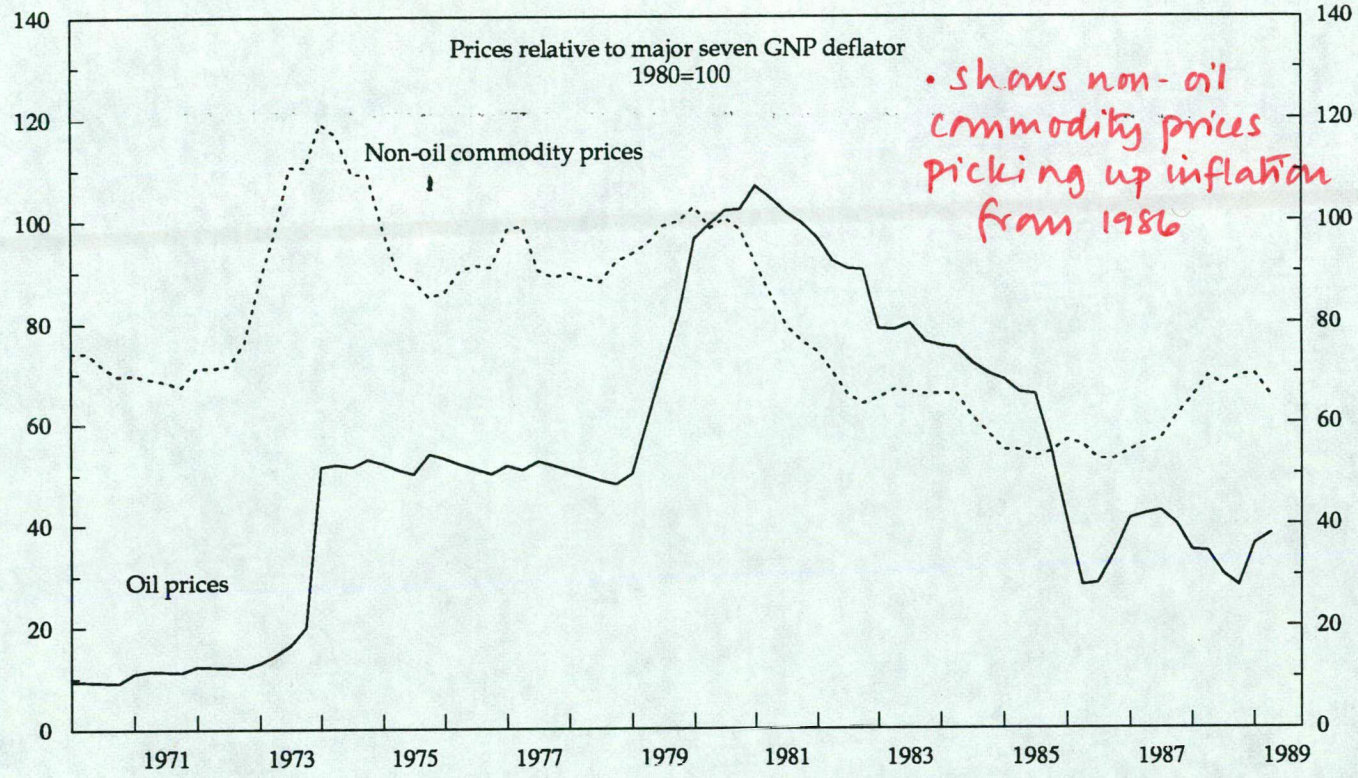
10 Growth has been rapid in many other OECD and developing economies. World trade in manufactures grew by over 10 per cent in 1988, after 8 per cent in 1987, the fastest two year expansion of the 1980s.

Chart 1 Major seven economies' real GNP and world trade in manufactures



11 Increases in non-oil commodity prices through 1988 and in oil prices in early 1989 contributed to a pick up in consumer price inflation in all the major seven economies. Consumer tax increases in a number of countries also boosted prices. Nevertheless, a significant part of the increase probably represented a rise in the underlying rate of inflation. Inflation has now started to edge down.

Chart 2 Real commodity prices



Forecast **12** Real GNP is forecast to grow less rapidly in 1989 than in 1988 and to slow a little further in 1990. Growth in world trade is likely to slow in 1989 and 1990, but world trade in manufactures is still expected to expand by over 6 per cent in each of these years.

13 Non-oil commodity prices have weakened over the last three months. The forecast assumes that these and oil prices remain close to recent levels. Consumer price inflation in the major seven economies is forecast to fall somewhat in 1990, but to remain above the average between 1984 and 1988.

Table 1 World economy

	Percentage changes on previous year		
		Forecast	
	1988	1989	1990
Major seven countries[1]			
Real GNP	4 ½	3 ½	2 ¾
Real domestic demand	4 ¾	3 ½	2 ¾
Industrial production	6	4	3
Consumer prices	3 ¼	4 ½	4
World trade, at constant prices			
Total imports	8 ½	7	5
Trade in manufactures	10 ½	7 ½	6 ½

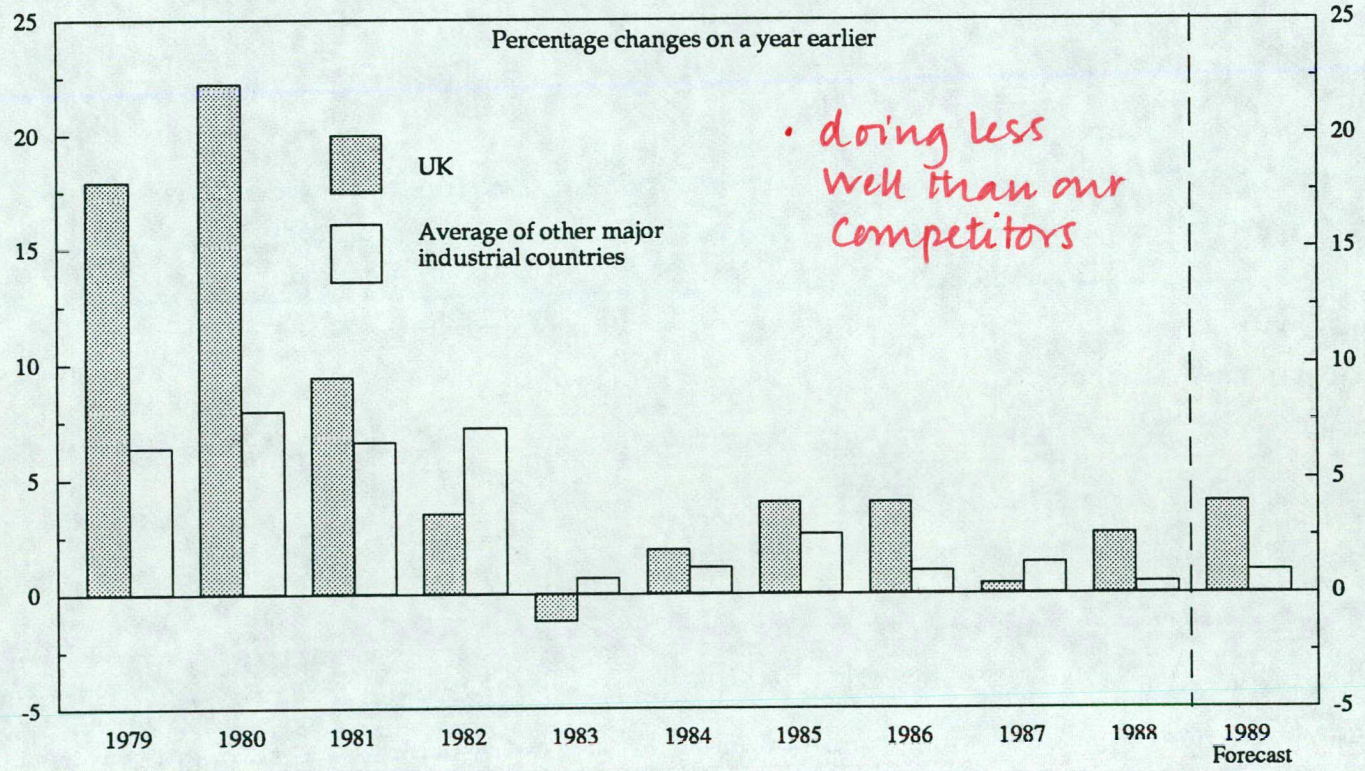
[1] *US, Japan, Germany, France, UK, Italy and Canada.*

Trade and the balance of payments

Relative costs

14 Unit labour costs in manufacturing have risen more rapidly in the UK than in other major industrial countries in 1988 and 1989. Cost competitiveness remains more favourable than in 1985, before the fall in world oil prices. But, with unit labour costs forecast to grow slowly in other major countries, the maintenance of UK competitiveness in the year ahead will depend on success in restraining cost increases.

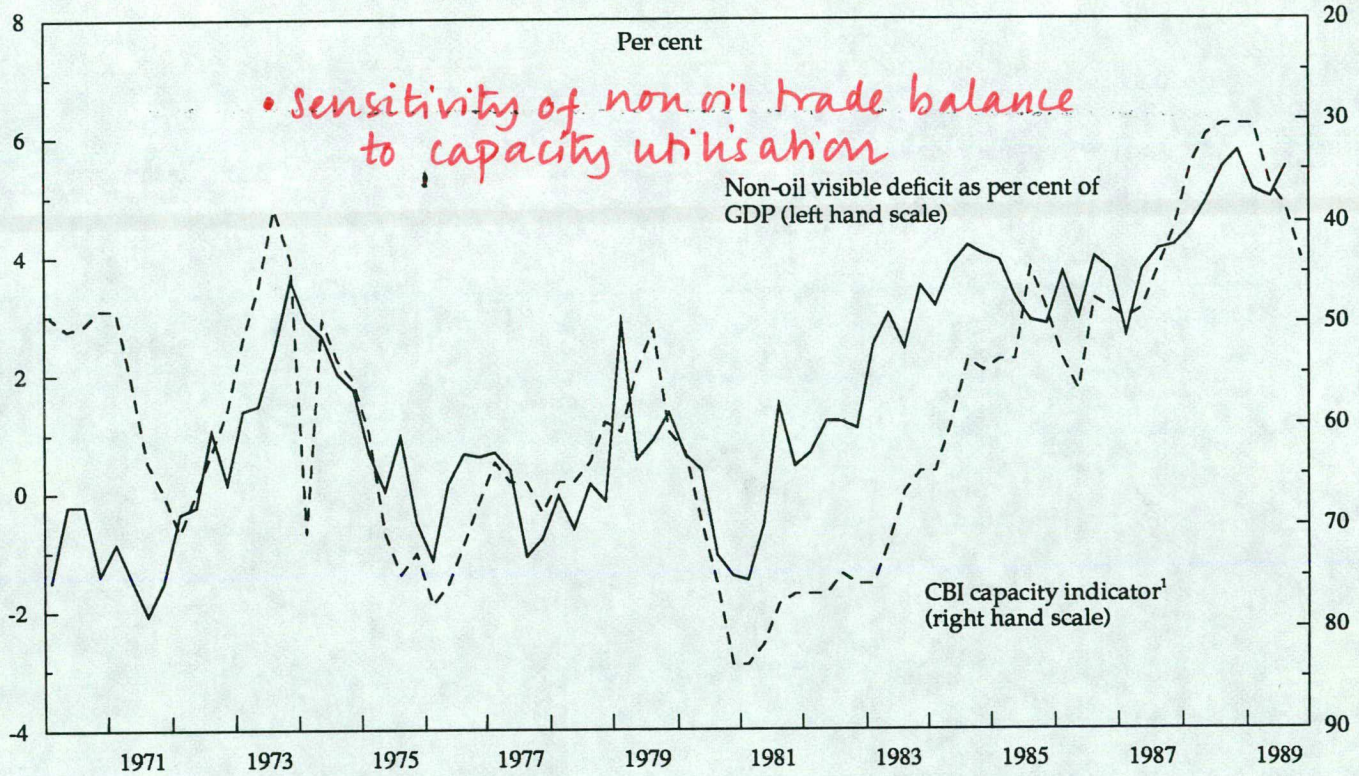
Chart 3 Unit labour costs in manufacturing



Recent developments

15 The current account is estimated to have been in deficit by £15 ½ billion in the first nine months of 1989. The non-oil visible deficit rose as a share of GDP during 1988 as a result of rapid growth of domestic demand and increasing pressures on capacity. Since the end of 1988 it has stabilised as the growth of demand and capacity pressures have eased.

Chart 4 Non-oil visible deficit and capacity utilisation



[1] *percentage working below full capacity.*

16 The invisibles surplus has fallen in recent quarters, and the oil surplus has declined as oil exports have been hit by the series of disruptions to North Sea production. As a result of this fall in oil production, an unusually large gap has emerged over the past year between the growth of non-oil exports and the much slower growth of total exports.

Table 2 Visible trade

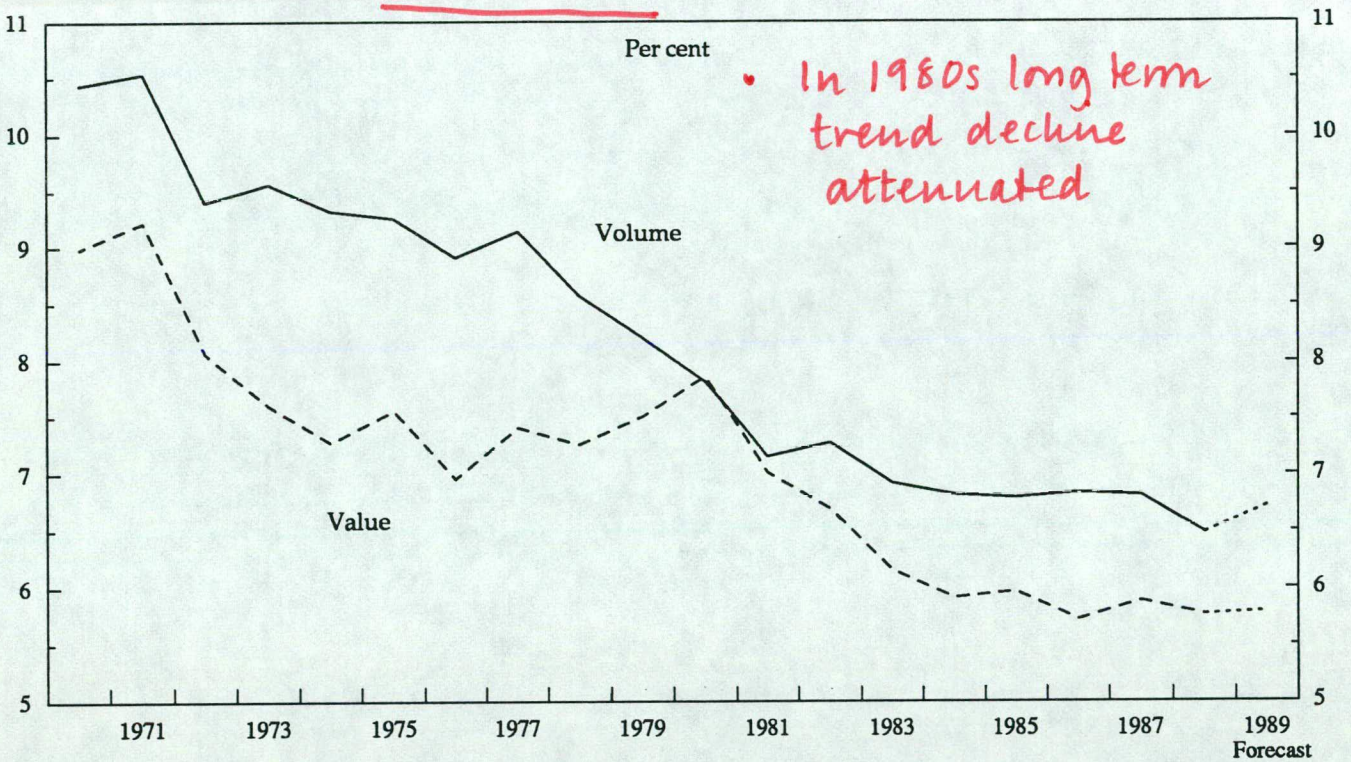
	Percentage changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade[1]	Export volume	Import volume	Terms of trade[1]
1988	1 ½	13	¾	3 ¼	14 ¼	1 ¾
1989 Partly forecast	5	10 ¼	4 ¾	11 ½	10 ¼	¾
1990 Forecast	7 ½	2	- ¼	6 ½	2 ¼	0

[1] *ratio of UK export average values to import average values.*

Trade volumes (goods other than oil)

17 The volume of UK exports of manufactures has continued to rise strongly, despite slightly slower growth in world trade. In the first three quarters of 1989 the volume of exports of manufactures was 11 per cent higher than a year earlier. Exports of consumer goods have grown faster than other categories, as capacity pressures in UK consumer goods industries have eased in response to slower growth of consumer spending.

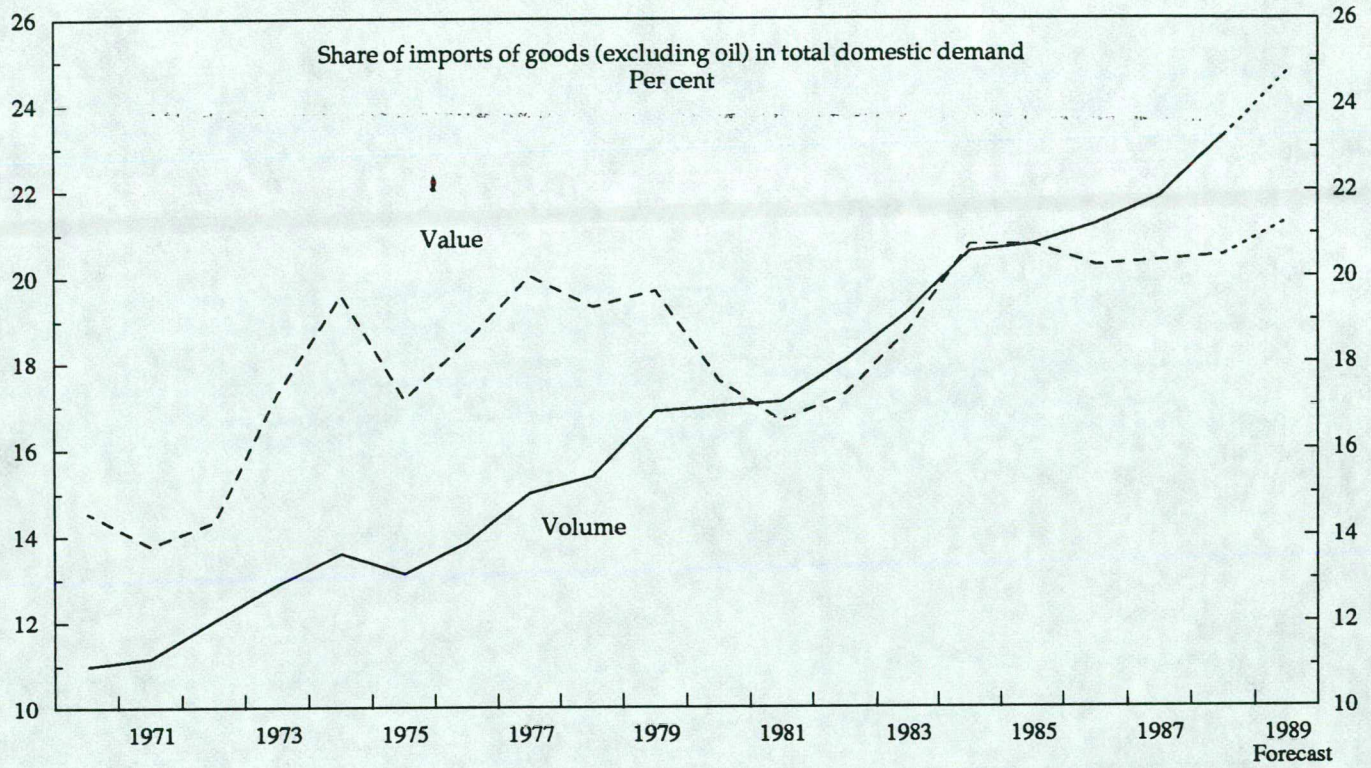
Chart 5 UK share of world trade in manufactures



18 After decades of decline, the UK's volume share of world trade in manufactures has fallen only slightly since 1981. It fell in 1988, as capacity pressures led some manufacturers to divert production from exports to the home market, but is forecast to rise in 1989. In 1990 the volume of exports of manufactures is forecast to rise by 6 ½ per cent, in line with the forecast growth of world trade.

19 Non-oil import volume growth has slowed in 1989, but by less than forecast in the FSBR, as demand and capacity pressures have eased. Domestic demand has also been more buoyant than expected in the first three quarters of 1989: the car market was particularly strong over this period, which boosted imports considerably. Cars and capital goods have been the fastest rising categories of imports over the past year. High imports of cars in advance of the August registration peak probably contributed to rising stock levels, but there are signs that the rate of growth of car sales has now eased.

Chart 6 Import penetration



20 Non-oil import volume growth is forecast to slow sharply, to 2 ¼ per cent in 1990, as domestic demand levels off. Capacity pressures are expected to ease further as extra capacity becomes available following the recent investment boom.

Oil trade

21 The oil trade surplus is forecast to fall by somewhat less than £2 billion in 1989, to around £1 billion, despite a higher sterling oil price. This is mainly a result of disruptions to production in the North Sea following recent accidents. Oil production in 1989 is likely to be slightly below the bottom of the Department of Energy's Brown Book range. Since publication of the Brown Book there have been further disruptions, particularly to Cormorant and other fields in the Brent system. In addition there has been a slower than expected return to normal production levels in fields affected by earlier incidents. The reduction in the oil trade balance as a result of North Sea disruptions is estimated at around £1 ½ billion in 1989, compared with £ ½ billion in 1988.

22 Oil production is likely to recover in 1990, but is forecast to remain towards the lower end of the Brown Book range. Domestic demand for oil is forecast to be restrained by slower economic growth, and the oil trade surplus is forecast to rise to £2 billion.

Trade prices and the terms of trade

23 The terms of trade have improved over the past year, partly because of higher prices for North Sea crude oil. Little further change in the terms of trade is forecast for the rest of 1989 and 1990.

Invisibles and overseas assets

24 The surplus on invisibles is forecast to fall by £2 billion, to £4 billion, in 1989. This reflects increased net transfers overseas and a sharp fall in earnings from interest, profits and dividends, mainly as a result of a rise in net interest payments abroad by UK banks. The surplus on services has already begun to recover, following the decline in 1988, as the growth of domestic demand has eased. Growth in earnings from financial services has resumed and the travel deficit has fallen as consumers have cut back on foreign holidays.

25 The invisibles surplus is forecast to rise to £6 billion in 1990 mainly as a result of continued improvements in the services balance as the growth of domestic demand falls further.

26 During 1988 the value of the stock of UK identified net overseas assets rose by £4 billion to £94 billion. Identified net capital inflows were more than offset by the revaluation of the sterling value of overseas assets, particularly in the US, as a result of the rise in the dollar and the strength of overseas stock markets. The difficulty in measuring certain capital flows and problems with the valuation of direct investment assets mean that estimates of net overseas assets are subject to a wide margin of error.

Current account

27 The current account deficit in 1989 as a whole is forecast to be around £20 billion. The positive balancing item reflects unrecorded net credits. Although it is likely that a substantial part represents unidentified net capital inflows, it is also possible that there are errors and omissions in the current account.

28 Non-oil trade should respond more sharply in 1990 to the forecast pause in domestic demand growth. With the oil and invisibles surpluses both forecast to rise, the current account deficit is forecast to fall to £15 billion in 1990.

Table 3 Current account

	£ billion					
	Manufactures	Other	Oil	Invisibles	Current balance	Balancing item
1988	-15	-8 ½	3	6	-14 ½	12 ½
1989 Partly forecast	-17	-8	1	4	-20	15 ½[1]
1990 Forecast	-15	-8	2	6	-15	

[1] *first half of 1989 at annual rate*

Demand and Activity

GDP data

29 Recent revisions and adjustments by the CSO to the individual components of expenditure have brought the growth of the expenditure measure of GDP in 1988 and the first half of 1989 broadly into line with movements in the output measure. The output measure is normally regarded as the most reliable indicator of movements in aggregate activity in the recent past. For 1988, the CSO has adjusted consumers' expenditure up by £1 ¼ billion, investment by £ ¾ billion, stockbuilding by £1 ¼ billion and net exports of services by £½ billion, all at 1985 prices. Proportionately more of

the adjustment in the first half of 1989 has been allocated to stockbuilding. These adjustments are, of necessity, judgemental and there remains some uncertainty over the precise allocation to individual expenditure components.

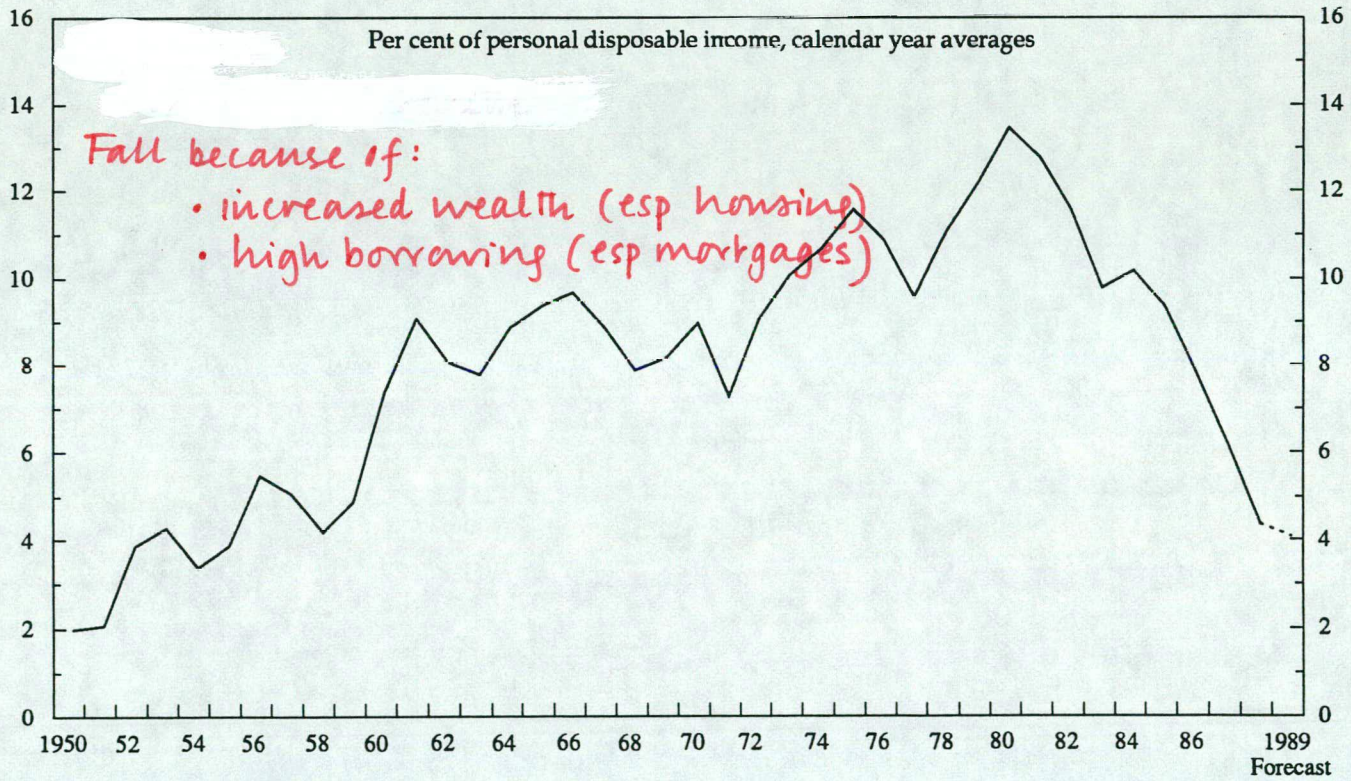
30 Non-oil output is estimated to have grown by 5 per cent in 1988. Growth was strong throughout the economy with both manufacturing and construction output rising by about 7 per cent, and output of the service industries by 5 per cent. Output growth has eased in the first half of 1989.

Personal sector expenditure

31 Consumer spending is now estimated to have risen by almost 7 per cent in 1988 following two years of 5 ½ per cent growth. Higher interest rates have already led to a sharp deceleration in consumer spending which is expected to rise by under 4 per cent for this year as a whole.

32 The sharp rise in consumer spending between 1985 and 1988 may have been associated with large increases in wealth, notably housing wealth, and was partly financed by increased borrowing, including mortgage borrowing. As a result households are now estimated to have become substantial net payers of interest. The growth of consumer spending is expected to fall to 1 ¼ per cent in 1990, both because of the need to service existing debt and the greater attractiveness of saving. These effects could be reinforced by developments in the housing market, where the buoyant conditions of 1987 and 1988 have given way to a much more muted outlook. Investment in new dwellings is forecast to fall further in 1990.

Chart 7 Personal saving ratio

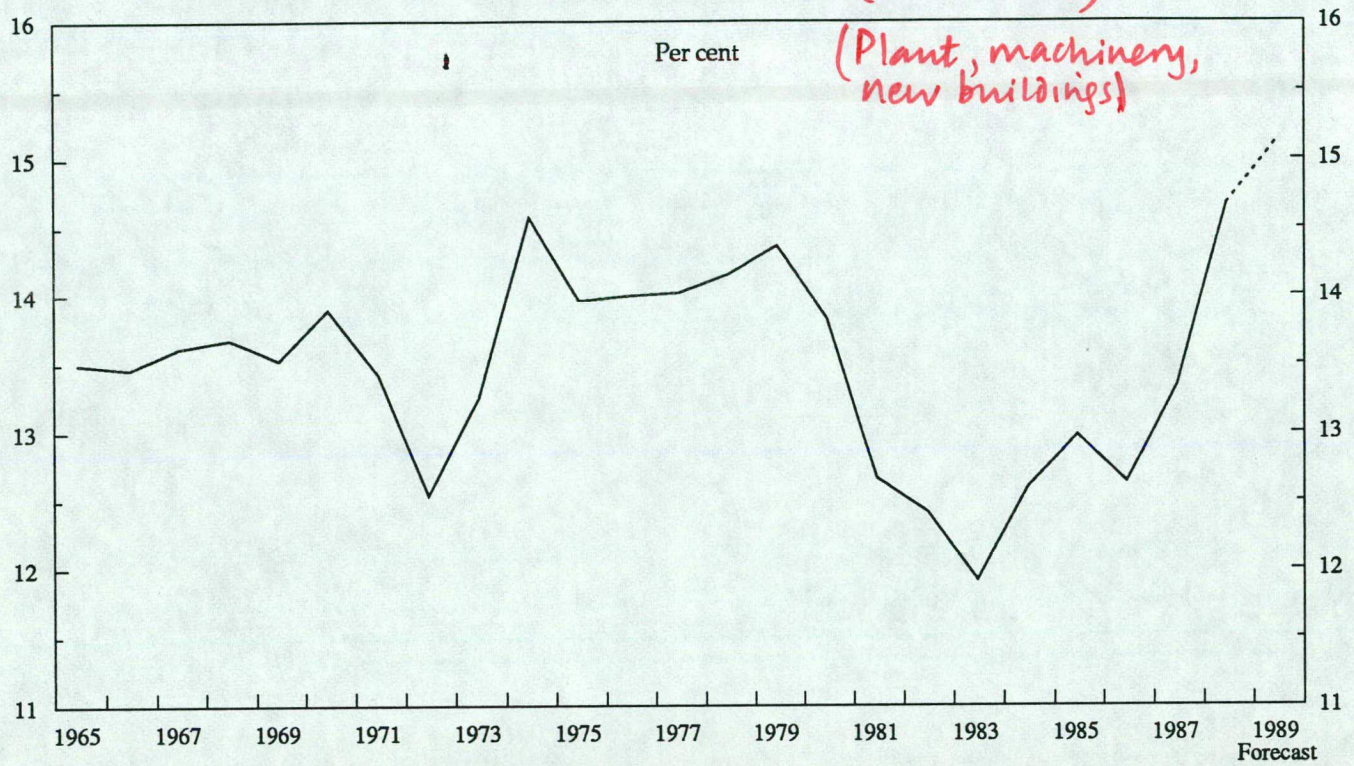


Fixed investment

33 Business investment rose 30 per cent in real terms between 1986 and 1988, buoyed up by strong business confidence and high profitability. Total business investment is expected to increase by a further 9 ¼ per cent in 1989.

As a share of GDP this year it is likely to be the highest ever. Growth in business investment is expected to slow to 4 ½ per cent in 1990 as companies adjust to tighter monetary conditions and slower growth of domestic demand.

Chart 8 Share of business investment in GDP (not stocks)



34 The rise in general government investment in 1989 and its subsequent fall in 1990 largely reflect movements in local authority gross capital expenditure. Central government investment is forecast to rise strongly in both years.

Table 4 Gross domestic fixed capital formation investm't in plant, machinery, offices, houses.

	Weight in 1988	Percentage changes on previous year		
			Forecast	
		1988	1989	1990
Business[1]	68	17 ½	9 ¼	4 ½
Private dwellings[2]	21	10 ¼	-10	-5 ½
General government[3]	11	-3 ½	9 ¾	-3 ¾
Total fixed investment	100	13 ¼	5 ¼	1 ¾

[1] *includes investment by public corporations.*
[2] *includes purchases less sales of land and existing buildings for the whole economy*
[3] *excludes purchases less sales of land and existing buildings*

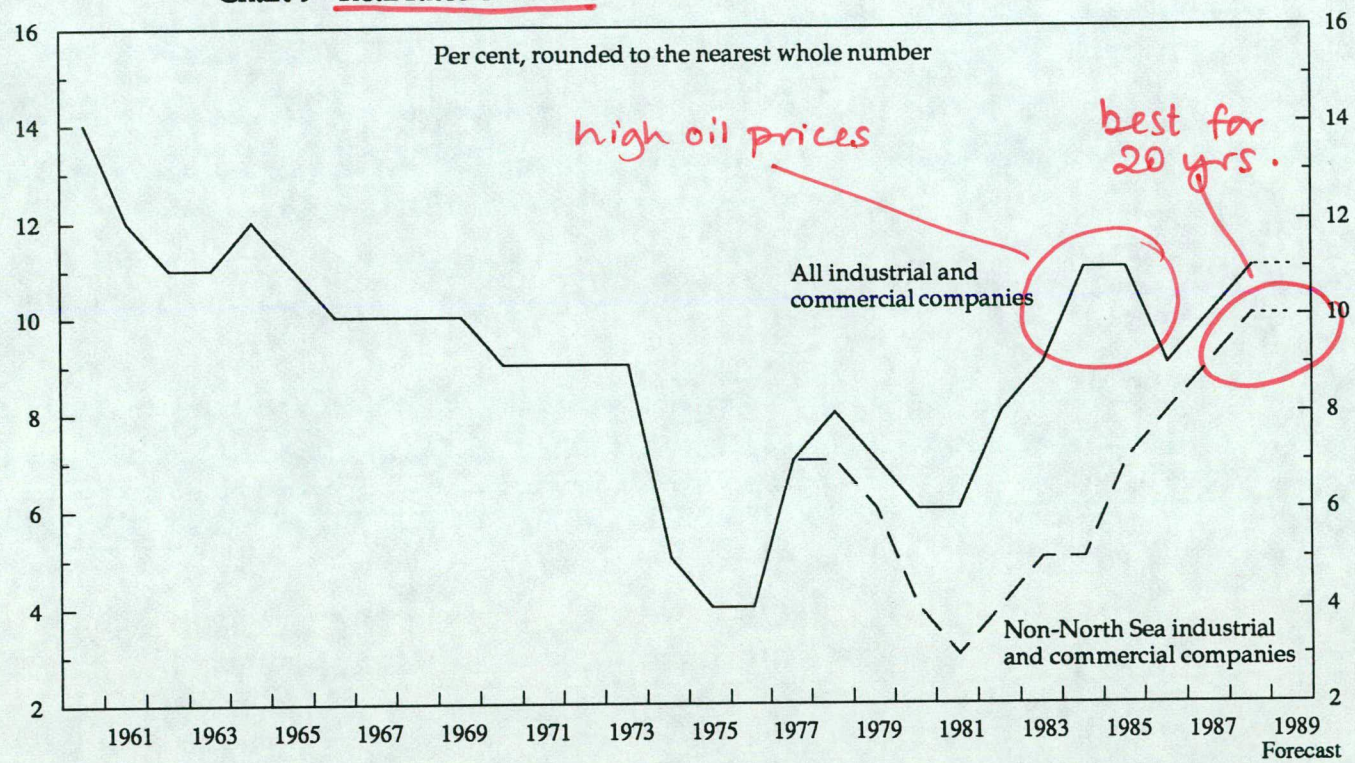
Stockbuilding

35 Company stockbuilding is estimated to have picked up sharply in 1988 and early 1989. Much of the CSO adjustment to aggregate expenditure in early 1989 has been concentrated in this category; it accounts for some £2 ¼ billion (at 1985 prices) of the £3 ¼ billion recorded stockbuilding in the first half of 1989. There must therefore be considerable uncertainty about the precise extent of recent stockbuilding. This adds to the margin of error

around the forecast for 1990, which assumes very little change in stock levels during the year.

Profitability 36 The net real rate of return of non-North Sea industrial and commercial companies rose further in 1988 to the highest level for twenty years. With profit growth likely to remain high in 1989, real rates of return are expected to have been sustained at high levels.

Chart 9 Real rates of return



Saving 37 Table 5 shows that total saving as a share of GDP has remained broadly unchanged since 1986, with rising public sector saving offsetting a fall in private sector saving.

Table 5 Saving by sector [1]

	Per cent of GDP at factor cost				
	Personal	Company	Total private	Public	Total national
1985	7.4	12.6	19.9	1.1	21.0
1986	6.2	12.8	19.0	1.2	20.2
1987	4.6	14.0	18.6	1.7	20.3
1988	2.9	13.5	16.4	4.0	20.4
1989 Partly forecast	2.8	12.5	15.3	4.8	20.1

[1] *net of stock appreciation, but including capital transfers*

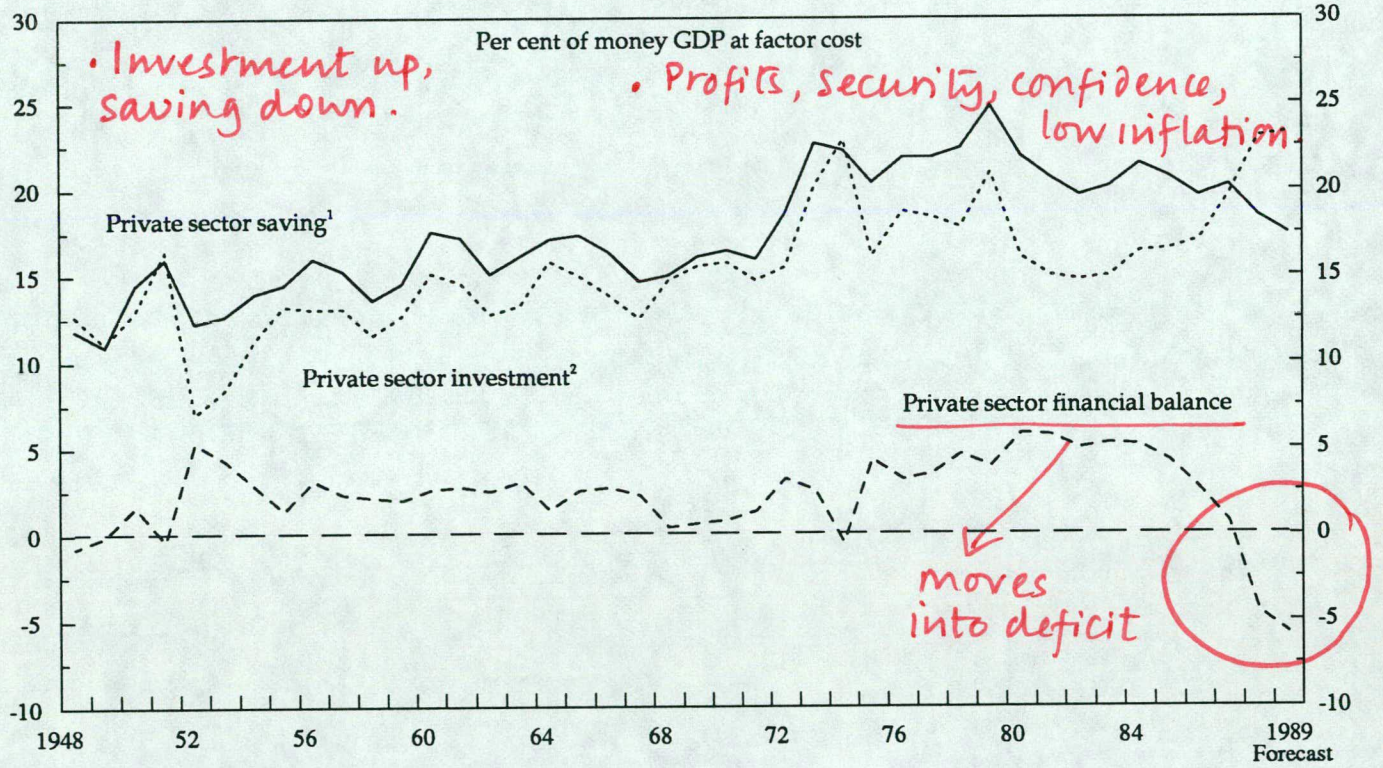
% of GDP
(personal saving ratio is % of disposable income)

Private sector financial position

38 The fall in private sector saving since 1985 has, unprecedentedly, coincided with a strong increase in investment. As a result, the private sector switched from its usual financial surplus to a financial deficit in 1988, with a larger deficit expected in 1989. The personal sector has already started to adjust to tighter monetary policy and the company sector is forecast to adjust over the next year. The overall private sector financial deficit is expected to decline in 1990.

- slows spending growth
- hence, imports
- hence BOP

Chart 10 Private sector financial position



[1] *before providing for depreciation, stock appreciation and additions to reserves.*
[2] *comprises gross domestic fixed capital formation, increase in value of stocks and work in progress, and capital transfers.*

Prospects for demand and activity

39 Growth in the average measure of GDP is forecast to be around 2 per cent in 1989. With domestic demand forecast to level off, GDP is expected to rise by 1 ¼ per cent in 1990.

40 The fall in North Sea production in 1989 has produced a larger than average gap between total and non-oil GDP. Non-oil GDP is estimated to have risen by 3 per cent in 1989. It is expected to grow by ¾ per cent in 1990, a little slower than total GDP which is boosted by the recovery of North Sea production. Manufacturing output is forecast to rise faster than non-oil GDP in both 1989 and 1990.

Table 6 Domestic demand and GDP

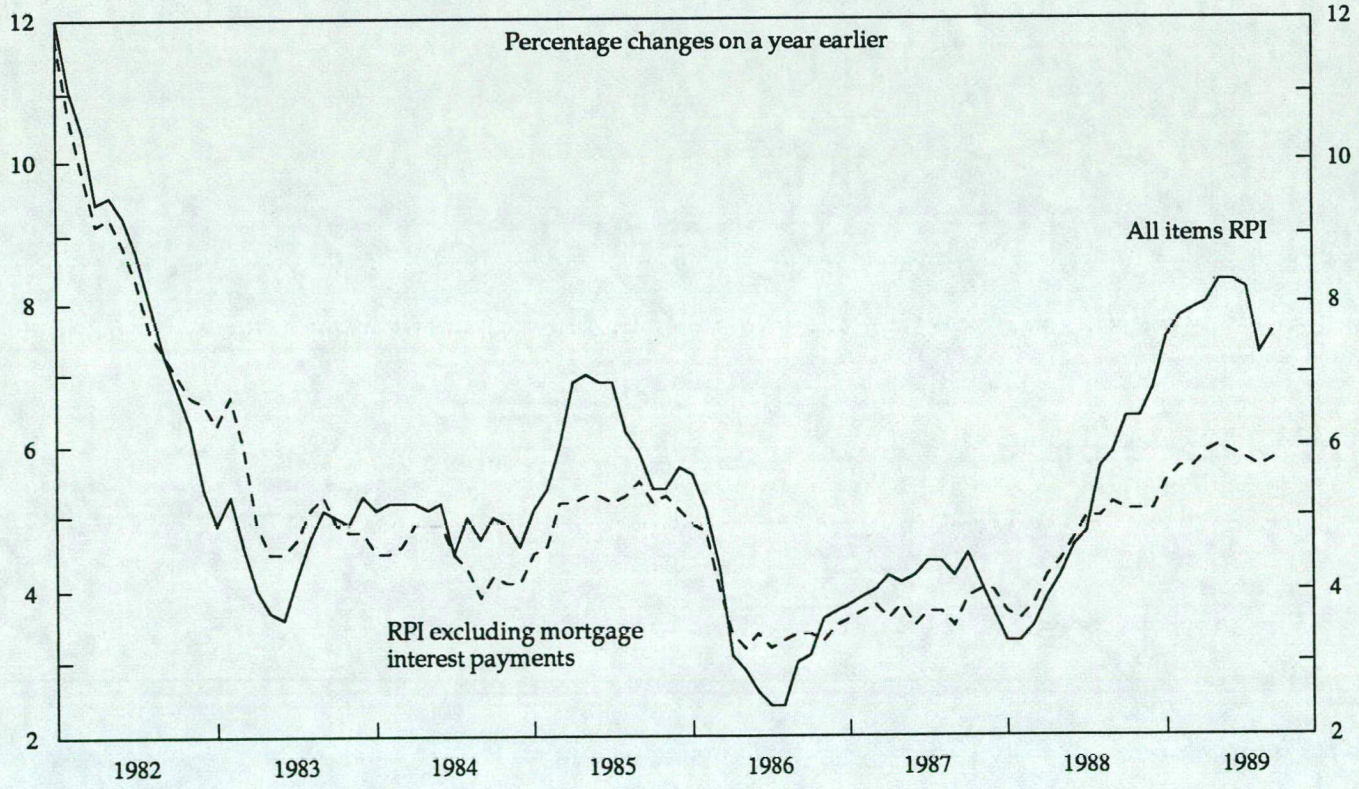
	Percentage changes on a year earlier		
		Forecast	
	1988	1989	1990
Domestic demand	7 ¼	3 ¾	0
Exports of goods and services[1]	¾ (2)	4 ¾ (9 ¼)	6 ¼ (5 ½)
Imports of goods and services[1]	12 ¼ (13)	9 ¼ (9)	1 ¼ (1 ½)
Gross domestic product[1,2]	4 ¼ (5)	2 (3)	1 ¼ (¾)
Manufacturing output	7	4 ½	1 ½

[1] *non-oil shown in brackets*
[2] *average measure*

Inflation

41 The annual rate of RPI inflation rose to 8.3 per cent in the early summer, but fell to 7.6 per cent in September. The increase in RPI inflation over the past eighteen months in large part reflects changes in mortgage interest rates. RPI inflation is likely to average 7 ½ per cent in the fourth quarter of 1989, partly reflecting the further rise in mortgage rates in November. A better indicator of underlying inflation is provided by the RPI excluding mortgage interest payments. On this measure, inflation has varied little from the 5 ¾ - 6 per cent range for most of 1989, having risen by 2 points over the past 2 years.

Chart 11 RPI inflation



42 Producer output price inflation (excluding food, drink and tobacco) picked up a little in early 1989, but has since remained stable. It is likely to average close to 5 ½ per cent in 1989, as forecast at Budget time. With sustained growth in demand over the six years to 1988, manufacturers' profit margins rose substantially and were a major factor behind the recent rise in producer price inflation.

43 The annual rate of increase in underlying average earnings in the whole economy rose to 9 ½ per cent in March 1989 and fell to 8 ¾ per cent in the period June to August. In the manufacturing sector the increase has averaged 8 ¾ per cent in the first eight months of 1989. The fall in whole economy earnings growth since March is mainly accounted for by declining bonus payments in the retail sector. Pay settlements, on the other hand, have picked up over the past year as labour markets have continued to tighten and inflation has risen.

44 The rise in manufacturers' unit labour costs was restrained in 1987 and 1988 by strong productivity growth. The recent fall in the growth of manufacturing output and productivity, with no attenuation in earnings growth, means that manufacturers' unit labour costs may rise by about 4 per cent in 1989.

Prospects

45 The recent and projected slow-down in demand and activity means that profit margins may be squeezed over the next year compared to recent historically high levels. Producer output price inflation is expected to fall in 1990.

46 Retail price inflation is likely to remain above 7 per cent in the first half of 1990, but should moderate thereafter with the continued slow-down in demand.

Table 7 Retail and producer output price inflation

	Weight in 1989	Percentage changes on a year earlier		
			Forecast	
		1988Q4	1989Q4	1990Q4
Retail prices: all items	100	6 ½	7 ½	5 ¾
of which:				
food	15 ½	4	6 ¾	5 ½
nationalised industries	4 ½	7 ½	7 ¼	7 ¾
housing	17	16 ½	17 ½	11
other ('market' prices)	63	4 ¾	5	4 ¼
Producer output prices[1]		5	5 ½	4

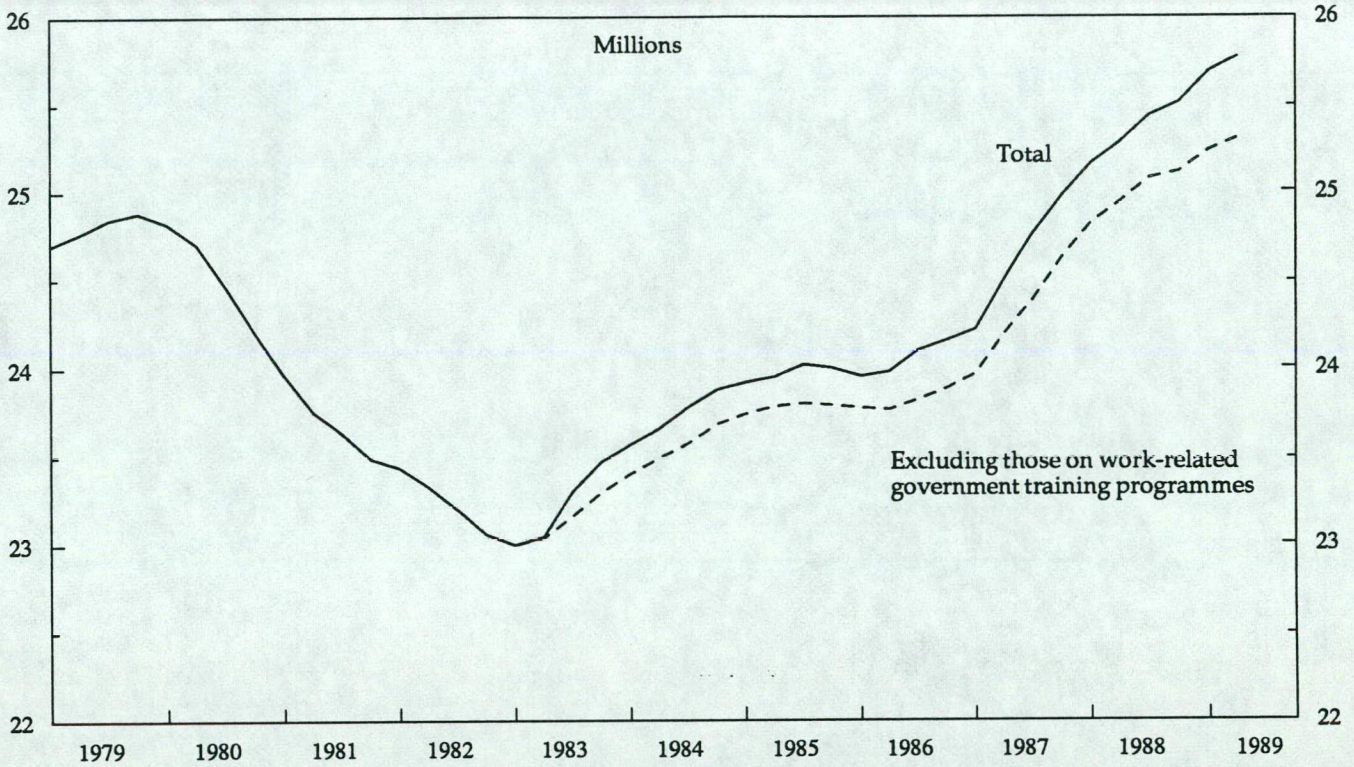
[1] *excluding food, drink and tobacco*

47 The GDP deflator, which measures the price of domestic value added (mainly unit labour costs and profits per unit of output), is forecast to rise by 7 per cent in 1989-90 and by 5 per cent in 1990-91.

Productivity and labour market

48 The workforce in employment in Great Britain has continued to rise strongly over the last year. In the twelve months to June 1989 it is estimated to have risen by over 470,000. Since 1983 there has been an increase of 2 ¾ million in the workforce in employment.

Chart 12 GB workforce in employment



49 Productivity has grown strongly over the past ten years, with manufacturing productivity rising by an average of over 4 per cent per annum since 1979. Manufacturing output per head has risen faster in the UK in the 1980s than in any other major industrialised economy.

Table 8 Manufacturing output per head

	Average annual percentage changes		
	1960-1970	1970-1980	1980-1988
UK	3	1½	5 ¼
US	3 ½	3	4
Japan	8 ¾	5 ¼	3
Germany	4	3	2 ¼
France	4 ½	3 ¼	3
Italy	5 ¼	3	3 ¾
Canada	3 ½	3	3 ½
Major 7 average	4 ½	3 ¼	3 ½

Good news

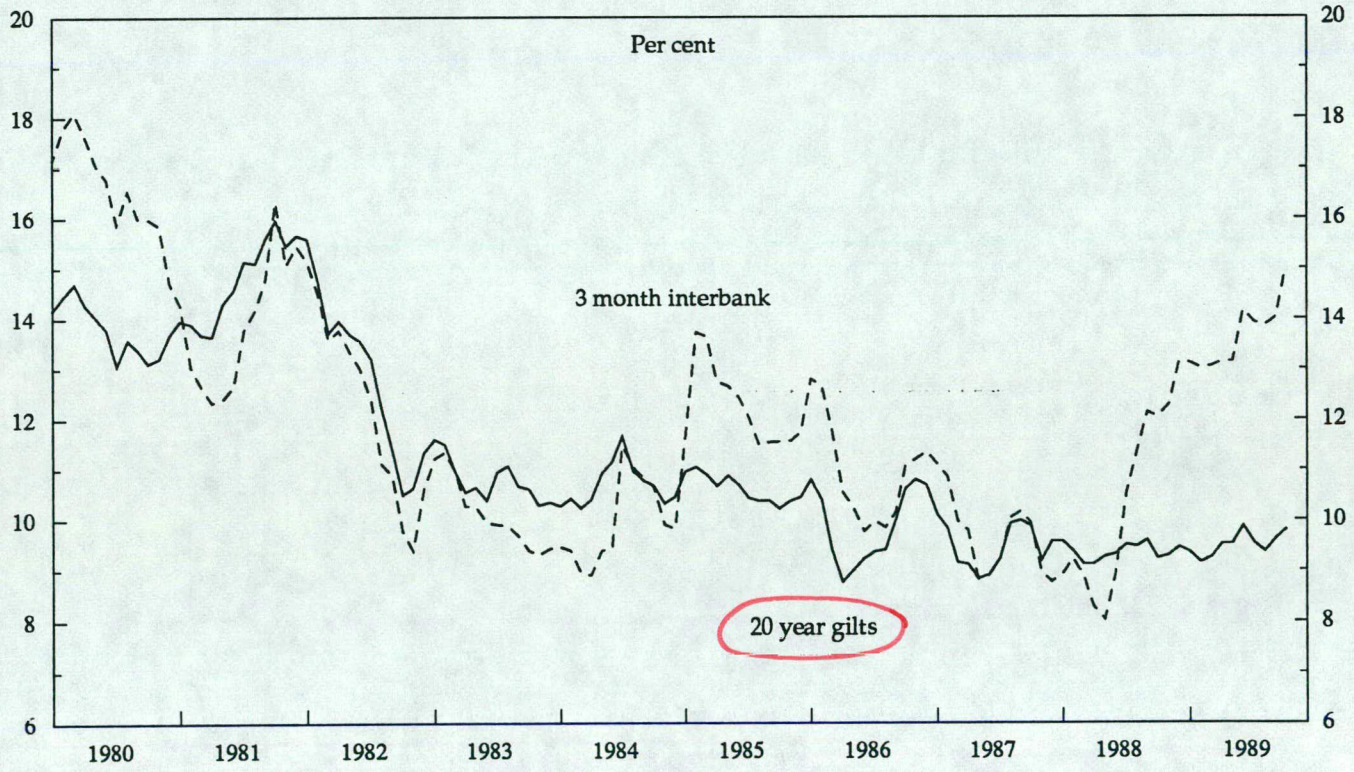
50 By September 1989, seasonally adjusted adult unemployment in the UK had fallen for 38 successive months, by almost 1 ½ million in total. This fall in unemployment has been mainly attributable to the strong growth of output and employment. Unemployment could level off in the coming months, but its behaviour will depend crucially on the extent to which wage settlements moderate.

Financial developments

Interest rates

51 Monetary conditions have tightened in 1989. Following rises in the second half of 1988, short-term interest rates have risen from 13 per cent in early 1989 to 15 per cent in October. Long term interest rates have been relatively stable.

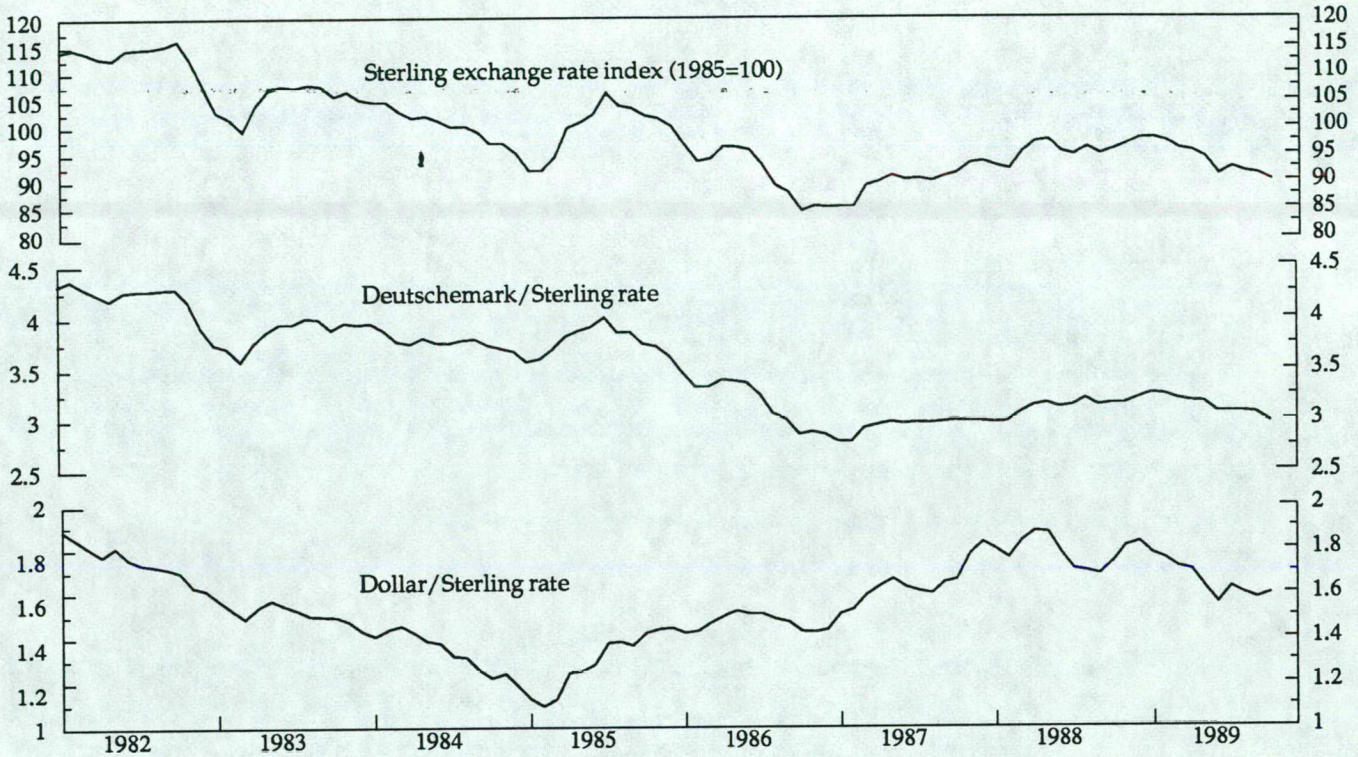
Chart 13 Interest rates



Exchange rates

52 The sterling effective exchange rate and the rate against the Deutschemark have fallen in recent months, following rises over the previous two years. This brings them back close to their levels in the first half of 1987.

Chart 14 Sterling exchange rates



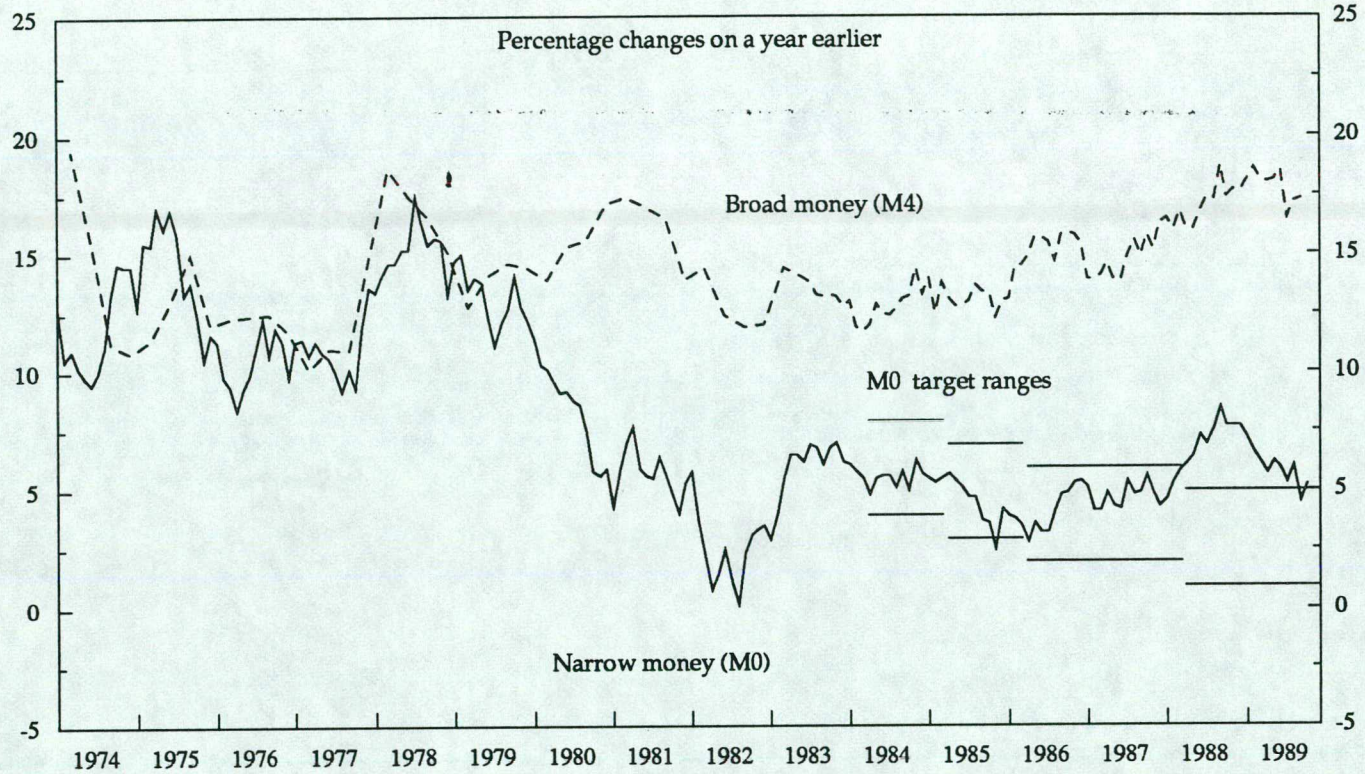
Narrow money

53 The year on year growth of M0 was above its target range throughout 1988-89. M0 growth has fallen over the past year in response to the rise in interest rates last year, and is now around the top of its 1-5 per cent target range. It is expected to continue to fall during the rest of the financial year, reflecting the rises in interest rates in 1989.

Broad money

54 Broad money has continued to grow rapidly. The growth of retail bank deposits - largely personal sector deposits - has slowed over the past year, but this has been offset by a renewed acceleration of wholesale bank deposits. Bank and building society lending has also continued to grow rapidly, though growth in lending for house purchase has slowed as the housing market has responded to higher interest rates.

Chart 15 Growth rates of monetary aggregates



Note: the fall in the M0 growth rate in September 1989 to within its target range partly reflects the effect of the postal strike a year ago. The October figure is an estimate.

Fiscal developments

55 Tables 9 to 11 show both the Budget projections and latest forecasts for general government expenditure and receipts and for the public sector debt repayment (PSDR).

Table 9 General government expenditure

	£ billion		
	1988-89	1989-90	
	Outturn	Budget forecast	Latest forecast
Public expenditure planning total (old definition)	149.6	167.1	168.2
Interest payments	18.1	17.1	17.8
Other adjustments	10.8	10.1	10.3
General government expenditure	178.6	194.3	196.3
of which:			
Privatisation proceeds	-7.1	-5.0	-4.2

56 General government expenditure in 1989-90 is forecast to be £2 billion higher than in the FSBR. About a third of this change is due to lower privatisation proceeds. Gross interest payments are forecast to be higher than in the FSBR, partly as a result of higher interest rates and inflation.

Nevertheless they are expected to be lower than in 1988-89, reflecting the high level of debt repayment.

57 The forecast of general government receipts in 1989-90 is a little higher than in the FSBR. Within the total, certain tax receipts are much higher partly due to faster than expected growth of money GDP. Inland Revenue receipts are expected to be £1 ¾ billion higher, due to higher income tax, up £1 ½ billion, and higher corporation tax, up £ ½ billion, while petroleum revenue tax is £ ¼ billion lower. Customs and Excise receipts are expected to be about £ ¼ billion higher than in the FSBR.

58 These upward revisions to taxes are largely offset by a downward revision to the forecasts of national insurance contributions (NICs) and other receipts. The largest element of this change is an upward revision of £2 billion to the forecast of national insurance rebates associated with the much greater than expected take-up of personal pensions. This is partly offset by an increase in gross contributions arising from faster growth of wages and salaries.

Table 10 General government receipts

	£ billion		
	1988-89	1989-90	
	Outturn	Budget forecast	Latest forecast
Taxes on income, expenditure and capital[1]	144.3	156.9	159.7
National insurance and other contributions[2]	33.0	34.3	32.7
Interest and dividends	6.5	7.0	6.9
Other receipts including accruals adjustments[2]	6.2	8.1	7.7
Total receipts	190.0	206.4	206.9
of which:			
North sea revenues	3.2	2.9	2.6

[1] *includes community charge*

[2] *figures have been adjusted to reflect a change to the treatment of personal pensions which the CSO will make when publishing 1989Q3 national accounts*

59 The PSDR in 1988-89 was £14 ½ billion, slightly higher than estimated in the 1989 FSBR. The PSDR in the first half of 1989-90 was a net repayment of £½ billion, a £3 billion smaller repayment than in the first half of last year. Excluding privatisation proceeds the PSDR was £1 billion lower in the first half of this year than in the same period last year.

60 Table 11 shows the Budget and latest forecasts for the PSDR in 1989-90 as a whole. The forecast is for a PSDR this year of £12 ½ billion, somewhat less than forecast in the FSBR. This is a substantial net repayment, which is less than £2 billion below the record achieved in 1988-89. Excluding privatisation proceeds, the net repayment forecast for 1989-90 is a little higher than last year. The forecast is still subject to a wide margin of error. The average error

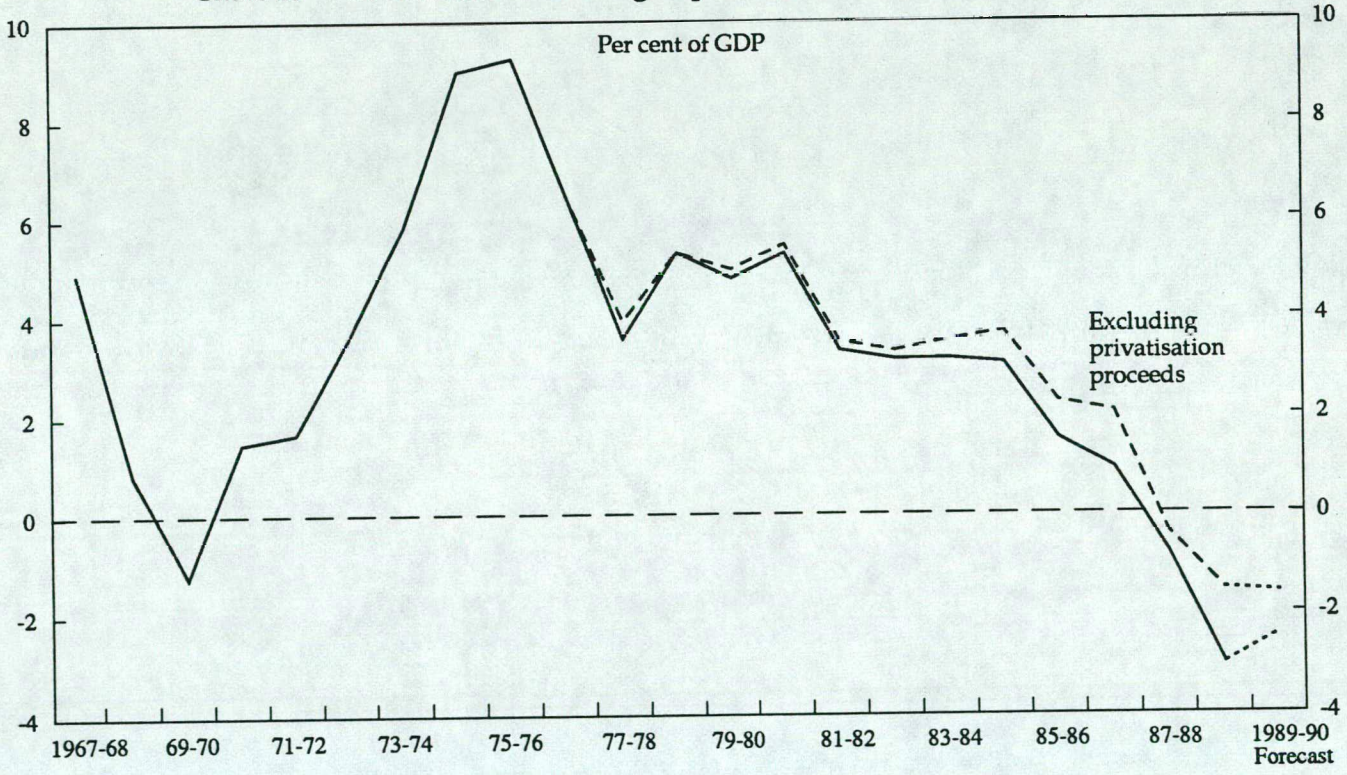
in PSDR forecasts for the current financial year made in the autumn is ½ per cent of GDP, equivalent to £3 ¼ billion at today's level of GDP.

Table 11 Public sector debt repayment

	£ billion		
	1988-89	1989-90	
	Outturn	Budget forecast	Latest forecast
General government expenditure	178.6	194.3	196.3
General government receipts	190.0	206.4	206.9
General government debt repayment	11.4	12.1	10.6
Public corporations market and overseas debt repayment	3.0	1.7	1.9
PSDR	14.3	13.8	12.6
PSDR as per cent of GDP	3	2 ¾	2 ½
PSDR excluding privatisation proceeds as per cent of GDP	1 ½	1 ¾	1 ½

61 The stock of net public sector debt is provisionally estimated to have been £158 billion at the end of 1988-89, equivalent to 32 per cent of GDP, compared with over 50 per cent in 1979. There is likely to be a further large fall in net public sector debt in 1989-90, in both nominal terms and relative to GDP.

Chart 16 Public sector borrowing requirement



Risks and uncertainties

62 Economic forecasts are subject to large uncertainties, and should be assessed in the context of the margins of error around each element of the forecast. Table 12 sets out the average absolute errors over the last ten years on forecasts made at this time of year.

63 The forecast uses published CSO estimates of GDP to 1989Q2, including the adjustments to expenditure components - consumers' expenditure, fixed investment, stockbuilding and net exports of services - which have been made to bring growth in the expenditure measure of GDP in 1988 and the first half of 1989 broadly into line with that of the output measure. The adjusted data provide a more coherent account of developments in 1988 and the first half of 1989 giving most weight to the output measure of GDP, which the CSO regards as the best indicator of GDP movements in recent quarters. But these adjustments are judgemental and imply considerable uncertainty about the recent movements of the individual components of expenditure and of GDP. Moreover, there remain large balancing items in the sectoral accounts. Together these add to the margin of error around forecasts.

Table 12 Economic prospects: summary

	Percentage changes on previous year unless otherwise stated			
		Forecast		Average errors from past forecasts[1]
	1988	1989	1990	
GDP and domestic demand at constant prices				
Domestic demand	7 ¼	3 ¾	0	1 ¼
of which:				
Consumers' expenditure	6 ¾	3 ¾	1 ¼	1 ¼
General government consumption	½	- ¼	¼	½
Fixed investment	13 ¼	5 ¼	1 ¾	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ¾	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ¼	3 ¼
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	7	4 ½	1 ½	2
Balance of payments current account (£ billion)	-14 ½	-20	-15	5 ¾
Inflation				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year)[2]	7	7	5	2
Money GDP at market prices (financial year)[2]	10 ¾	8 ½	6 ¾	2 ¼
£ billion	476	517	552	
PSDR (financial year)				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

[1] *The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the last ten years, and apply to the forecasts for 1990, except for the PSDR where it applies to the forecast for 1989-90.*

[2] *The introduction of the community charge in Scotland has reduced both the GDP deflator and money GDP by about ¼ per cent from 1989-90. There will be a larger reduction in 1990-91 following the introduction of the community charge in England and Wales, which is not allowed for in this table.*

Table 13 Gross domestic product and its components[1]

£ billion at 1985 prices, seasonally adjusted

	Consumers' expenditure	General government consumption[2]	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	GDP at factor cost (average measure)	GDP index 1985=100
1985	217.0	73.9	60.3	102.6	0.6	454.5	99.2	49.5	0.0	305.9	100.0
1986	229.1	75.5	61.5	106.9	0.7	473.6	105.8	52.0	-0.2	315.6	103.2
1987	241.4	76.3	66.9	112.4	1.1	498.0	113.9	55.2	0.9	329.8	107.8
1988	257.9	76.7	75.7	113.2	3.6	527.0	127.8	56.9	1.8	344.1	112.5
1989	267.6	76.6	79.7	118.4	5.4	547.6	139.5	59.0	1.8	350.8	114.7
1990	271.1	76.8	81.1	125.9	-0.3	554.6	141.4	59.5	1.8	355.4	116.2
1988 H1	127.2	38.3	37.2	57.0	-0.3	259.5	61.6	28.2	0.8	170.6	111.5
H2	130.7	38.3	38.4	56.2	3.8	267.5	66.2	28.7	1.0	173.6	113.5
1989 H1	133.2	38.3	39.4	58.3	3.4	272.6	69.1	29.5	0.9	174.9	114.3
H2	134.4	38.3	40.2	60.2	2.0	275.1	70.4	29.6	0.9	176.0	115.1
1990 H1	134.8	38.3	40.4	62.3	-0.2	275.6	70.3	29.6	0.9	176.6	115.5
H2	136.3	38.5	40.6	63.6	-0.1	279.0	71.1	29.9	0.9	178.9	117.0
Percentage change on previous year[3]											
1988	6 ¾	½	13 ¼	¾	¾	5 ¾	12 ¼	3 ¼	¼	4 ¼	4 ¼
1989	3 ¾	-¼	5 ¼	4 ¾	½	4	9 ¼	3 ¾	0	2	2
1990	1¼	¼	1 ¾	6 ¼	-1 ½	1 ¼	1 ¼	¾	0	1 ¼	1 ¼

[1] *The GDP figures are averages of constant price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels, then rounded to the nearest quarter per cent. Figures for periods up to and including the first half of 1989 are consistent with latest published CSO national accounts estimates, adjusted to take account of more recent information.*

[2] *The growth of general government consumption is reduced by about 1 per cent in 1989 and ¼- ½ per cent in 1990 by the transfer of polytechnics from the local authority sector to the personal sector, and by the phasing out of the Community Programme.*

[3] *For stockbuilding and the statistical adjustment, changes are expressed as a percentage of GDP.*

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C(89) 13 COPY NO 7

14 November 1989

CABINET

1989 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, Treasury

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This paper reports the outcome of my bilateral discussions with colleagues, which have been conducted, within the remit agreed by Cabinet in July, on the basis of the new definition of the planning total.

THE CABINET REMIT

2. Cabinet agreed that the top priority was to defeat inflation, and that the objectives for the Survey should be:

- to maintain the downward trend in general government expenditure (excluding privatisation proceeds) as a proportion of GDP;

- to stick as close as possible to existing plans.

PROGRESS IN BILATERALS

3. At the start of the bilaterals, the bids totalled some £13 billion for 1990-91, rising to £17 billion and £23 billion for the later two years. Within these totals, we were already committed to increases in 1990-91 of over £4 billion.

4. The table at Annex A records the settlements I have reached with colleagues. Annex B provides a brief description of each settlement.

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C(89)13 1989 PUBLIC EXPENDITURE SURVEY

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5. In summary, the settlements imply the following additions to baseline:

	£ billion		
	1990-91	1991-92	1992-93
Survey additions	5.7	7.5	11.1
Aggregate External finance for local authorities (GB) (excluding ILEA and low rateable value grants)	1.1	1.4	1.5
Transitional grants to local authorities	0.7	0.8	0.5
Total additions to programmes	7.5	9.7	13.2

Large as these increases are, they reflect a substantial scaling down of the bids, and some difficult decisions by a number of colleagues for which I am grateful. As a result we are in a position to achieve a satisfactory outcome, consistent with the remit we set in July.

6. We have still been able to find money to meet the cost of the NHS review proposals over and above provision for service growth, and to provide for substantial increases in road and rail investment. Other important initiatives which we have been able to fund include a package to alleviate homelessness, the introduction of student loans, new measures to help disabled people, a scheme of transitional relief for community charge payers, and extra police manpower. There is also provision for some less expensive, but politically attractive measures, such as a know-how fund for Poland, extra money for environmental research and protection, publicity for the recruitment of teachers, more spending on the arts, and accelerated introduction of improved training for nurses.

CAPITAL SPENDING

7. The new plans include extra provision for capital investment by central government amounting to some £1 billion a year. This includes increases for roads, hospitals, education and science and housing. There are also additions for £$^1/_4$ billion in 1990-91, rising to £$^1/_2$ billion in the later years, for those industries remaining in the public sector throughout the period. The total addition for investment in transport (by both central government and nationalised industries) come to around £2 billion over the three years. The new plans also

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include provision for substantial support for local authority capital spending on schools, local transport schemes, and housing renovation.

RUNNING COSTS AND MANPOWER

8. Running costs settlements imply increased spending on the Civil Service of $9^{1}/_{2}$ per cent in cash (4.3 per cent in real terms) between this year and next. Though markedly lower than the bids, this is a higher percentage increase than in recent years, because rising provision for pay and new initiatives is not fully offset by efficiency improvements. The cash increases for 1991-92 and 1992-93 are 5 per cent and $4^{1}/_{2}$ per cent.

9. Most departments have reached three-year settlements including planned efficiency gains averaging 2 per cent a year, with higher figures for most large executive departments. I look to colleagues to ensure that their departments' efficiency targets are carefully monitored and wherever possible exceeded. In future Surveys, we shall need to examine the outcome.

10. Civil Service manpower will remain well below 600,000.

1989-90 OUTTURN

11. The planning total for 1989-90 was set, on the old definition, at £167.1 billion. This included a Reserve of £3.5 billion. The estimated outturn is now £168.2 billion. Expected claims on the Reserve total some £4.6 billion; within this, additional expenditure by local authorities looks likely to account for some £$2^{3}/_{4}$ billion, lower privatisation proceeds some £$^{3}/_{4}$ billion and pubic corporations some £$^{3}/_{4}$ billion.

PUBLIC EXPENDITURE TOTALS

12. At Cabinet the Chancellor will inform colleagues of the level of Reserves which he believes will be required, and of his proposals for the planning totals to be adopted for the next three years. In the light of these proposals he will give an indication of the implications for the trend of GGE as a proportion of gross domestic product.

CONCLUSION

13. I invite colleagues:

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

(b) to note the running costs outcome, and the need to examine in future Surveys the delivery of efficiency improvements;

(c) to note the estimated outturn for 1989-90.

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Treasury Chambers

14 November 1989

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ANNEX A

9/11/89

1989 SURVEY: ADDITIONS TO PROGRAMMES

£ million

	1990-91 BASELINE	1990-91 CHANGE	1991-92 BASELINE	1991-92 CHANGE	1992-93 BASELINE	1992-93 CHANGE
Ministry of Defence	21,195	0	22,107	215	22,657	750
FCO - Diplomatic, Information, Culture	840	48	884	57	906	54
FCO - ODA	1,627	82	1,692	115	1,734	144
Intervention Board for Agricultural Produce	1,342	-151	1,518	-158	1,556	-121
Ministry of Agriculture, Fisheries and Food	575	53	589	67	604	82
Forestry Commission	77	1	80	3	82	6
Trade and Industry	1,302	-50	1,155	-35	1,184	-148
Export Credits Guarantee Department	122	120	61	9	63	-91
Energy	422	34	353	46	362	33
Department of Employment	3,888	-97	3,896	-215	3,994	-274
Department of Transport	2,647	425	2,725	525	2,793	550
DOE - Housing	5,737	633	6,157	571	6,311	534
DOE - Other Environmental Services	1,193	234	1,225	158	1,255	160
DOE - Property Services Agency	-154	82	-193	21	-210	-50
DOE - Local Government	19,365	1,120	19,849	1,491	20,345	1,326
Home Office (inc. Charity Commission)	4,524	316	4,600	413	4,719	441
Legal departments	1,189	77	1,261	119	1,293	179
Department of Education and Science	5,824	782	5,932	870	6,081	878
Office of Arts and Libraries	456	38	486	37	498	46
Department of Health and OPCS	20,987	1,194	21,933	1,548	22,490	2,122
Department of Social Security	55,128	346	58,303	1,585	59,762	3,822
Scotland	9,181	479	9,490	530	9,727	601
Wales	4,133	307	4,247	321	4,354	330
Northern Ireland	5,656	296	5,867	362	6,013	442
Chancellor's Departments	4,328	257	4,538	316	4,652	457
Cabinet Office, Privy Council Office, etc	337	15	352	14	361	12
European Communities	1,950	-80	1,580	90	1,620	370
Nationalised industries	-396	915	979	532	1,002	512

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ANNEX B

SUMMARY OF AGREED PROGRAMMES

£ million

	1990-91	1991-92	1992-93
Defence			
	0	+215	+750

1. The three-year settlement for the years up to 1991-92 agreed in the 1988 Survey has been confirmed. (The 1991-92 addition is a technical change, part of which represents sums due under the 1988 Survey agreement, while part is offset by reductions on other programmes). A new three year settlement covering 1990-91 to 1992-93 has been agreed. Defence provision increases by about £1 billion a year.

FCO - Diplomatic Wing			
	+48	+57	+54

2. Increases provide for additional visa work; continuing UK contributions to peacekeeping forces in Iran/Iraq and Angola; scholarships and exchanges; security; relocation; and overseas price movements.

FCO - ODA			
	+82	+115	+144

3. Increases provide for continued support for economic reform in Nigeria and for the know-how fund for Poland; increases in the Aid and Trade Provision; and additional multilateral and bilateral aid, including forestry initiatives.

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IBAP

-151	-158	-121

4. Reductions reflect IBAP's latest forecast of expenditure, taking account of UK and EC harvest information and the continuing process of reform of the Common Agricultural Policy.

Domestic Agriculture

+ 53	+ 67	+ 82

5. Additions are mainly for demand led schemes (including salmonella and BSE slaughter and compensation), flood defence, the set-aside scheme to reduce arable production, a pilot scheme for reducing use of nitrates in sensitive areas, and MAFF departmental administration. Additions in Scotland provide for a rural enterprise programme and for rationalisation of agricultural research bodies. There are reductions in the net cost of chargeable advisory services to farmers, and of registration of pesticides and veterinary medicines. There are also savings from reduced frequency of brucellosis testing, reduced administrative support for the Potato Marketing Board, reduced grants for fishing vessels, and increased land sales.

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Forestry Commission

+1	+3	+6

6. Additions are for superannuation, forest recreational facilities, and land purchases, offset by savings on planting grants.

Trade and Industry

-50	-35	-148

7. There is extra provision for space. There are reductions on regional development grants, the business development initiative (including regional enterprise grants), launch aid and innovation. There are increased receipts for English Estates.

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ECGD

+120	+9	-91

8. Changes result from changed assumptions about interest rates in the UK and abroad.

Energy

+34	+46	+33

9. The additions provide for increases on nuclear decommissioning and waste management; extra expenditure (including R&D) on renewable energy sources and energy efficiency; and the setting up of the office for regulating the electricity industry following privatisation.

Employment

-97	-215	-274

10. Reductions in Employment Training, the Youth Training Scheme, and the Enterprise Allowance Scheme reflect a tighter labour market and increased contributions from employers towards the cost of training young people. There is additional provision for the employment of disabled people, rationalisation of the Employment Service's office network, and for the new Training and Enterprise Councils.

Department of Transport

+425	+525	+550

11. The settlement totals £1.5 billion over the three years. It is a substantial increase in the roads programme, as agreed by E(A): roads expenditure in 1990-91 will be 39 per cent higher than plans for 1989-90 and 80 per cent higher than for 1988-89. It will also enable DTp to fulfil its commitment to eliminate road

maintenance backlogs by 1992-93. In addition, the nationalised industry figures in paragraph 25 below include an extra £1.4 billion over the three years for transport.

DOE - Housing

	+633	+571	+534

12. Additions provide for a £¼ billion package of measures to ease homelessness, and substantial real increases in the Housing Corporation grant to support subsidised rented housing by housing associations. There are technical additions of nearly £½ billion a year (which do not affect GGE) resulting from the reform of the housing subsidy system for local authorities. Offsetting savings reflect higher New Towns housing receipts.

DOE - Other Environmental Services

	+234	+158	+160

13. Additions provide more support for Urban Development Corporations (particularly for transport projects in London Docklands); increased local authority credit approvals for waste disposal and methane in landfill sites; the establishment of a Climate Change Centre; increased environmental research; and more resources for the HM Pollution and Planning Inspectorates.

DOE - PSA

Property Holdings	+39	+9	-53
Services	+43	+12	+3

14. For Property Holdings, additions provide for higher rents, major new works (including Parliamentary works), some estate rationalisation, and a further reduction in the backlog of maintenance. Reductions in year 3 reflect higher receipts. For Services, additions include IT capital expenditure, set-up costs of new design offices, and redundancy costs.

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Home Office and Charity Commission

+316 +413 +440

15. The settlement provides for a 9 per cent real increase in expenditure on prisons in 1990-91 (with reductions below baseline in later years to reflect lower prison population projections); additional staff for the passport department, more measures to divert offenders from custody and new anti-drugs initiatives; and a 6 per cent real growth in police grant on current expenditure in 1990-91 including an additional 1,100 police officers.

Lord Chancellor's and Law Officers' Departments

+77 +119 +179

16. For LCD, additions allow for the resource implications of the Civil and Competition Policy Initiatives, rising workloads in the county courts, and higher costs of legal aid; higher accommodation charges (notably for the Crown court) and the rising cost of the court building programme, partly offset by a slow-down in new construction. For other legal departments, additions largely reflect the rising costs of major building projects.

Department of Education and Science

+782 +870 +878

17. The provision allows for increases between 1989-90 and 1990-91 of: 8 per cent for the Science budget on top of the large increase announced last year; 24 per cent for capital provision for local authority schools and colleges; and 9 per cent for higher education, to finance 27,000 more student awards than previously allowed for, an 8 per cent increase in the academic pay bill, and inroads into the backlog of maintenance work. The plans also allow for the cost of introducing top-up student loans in September 1990.

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Office of Arts and Libraries

	+38	+37	+46

18. A new three year settlement has been agreed, providing for a substantial increase in real terms between 1989-90 and 1990-91. There is also extra provision for the British Library's St Pancras project, to finance further construction work.

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Department of Health and OPCS

	+1194	+1548	+2122

19. Main additions provide for the knock-on effects of the 1989 pay awards to doctors and nurses; revised forecasts of demand-led expenditure on the Family Practitioner Services; continued growth in hospital activity in response to demographic and other pressures; the costs associated with implementation of the NHS Review; increases for hospital capital expenditure; and the likely cost of pay awards in 1990-91 to non-clinical staff.

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Department of Social Security

Attributable to DSS	+398	+1640	+3889
Total Survey changes (including adjustments to rent rebate subsidy attributed to DOE and WO)	+346	+1585	+3822

20. The largest single factor explaining the increases in 1991-92 and 1992-93 is the impact of higher uprating assumptions. The underlying growth in expenditure is also important in 1992-93, particularly in expenditure on pensions and disability benefits (these increases were already in the baseline for the earlier years). Benefit increases for poorer families and poorer pensioners, and abolition of the pensioners' earnings rule require extra provision. Expenditure on community charge benefit will be

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higher than on rate rebates. The net effect of changes in sickness and disability benefits will add to expenditure, particularly in the third year. Ten new measures have already been announced, helping ½ million sick and disabled people and carers, costing £100 million in a full year. The longer term impact, however, will be to constrain the growth in spending on these benefits as a result of the decisions to end the reduced earnings allowance and to phase out the additional pension paid with invalidity benefit. These increases are offset in part by the effects of lower unemployment. Estimating changes in the first two years also show savings. In addition, the Secretary of State has also decided to find savings through not uprating Child Benefit, through changes to statutory sick pay, and by tightening up the rules for recovery of maintenance from liable relatives.

Scotland

+479	+530	+601

21. Additions include formula consequentials of changes to English programmes (some £340/390/460 million). New provision also reflects higher receipts for the Scottish Development Agency; additions to the block for local authority capital expenditure on water services (for which there is no comparable provision in England and Wales following privatisation); and the cost of the local authority settlement announced in July and the move towards harmonising business rates with those in England.

Wales

+307	+321	+330

22. Additions are mainly the formula consequentials of English settlements (some £170/190/220 million) and the cost of the local authority current grants settlement announced in July.

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Northern Ireland

	+296	+362	+442

23. The additions include the cost of privatisation of Shorts, and increases in social security provision as a result of estimating changes and revised economic assumptions. The Northern Ireland Block will also receive the normal formula consequentials of increases in comparable programmes in GB; these are expected to amount to some £175 million in 1990-91, £200 million in 1991-92, and £220 in 1992-93.

Inland Revenue	+194	+174	+214
Customs and Excise	+ 39	+ 54	+105

24. Extra provision reflects increased workloads, including on independent taxation, the Channel tunnel and 1992. There are additions for information technology and for relocation of posts from London. The plans take account of substantial efficiency gains. Provision for payments of life assurance premium relief and mortgage interest relief to non-taxpayers is increased.

Nationalised Industries

	+915	+532	+512

25. Increased provision for British Railways and London Regional Transport will allow substantial new investment, including safety improvements. Rail fares are broadly assumed to rise in 1990 by up to 3 per cent in real terms. No provision has been made for new railway lines in London; but given satisfactory contributions from developers and a Bill laid by 20 November, provision for an extension of the Jubilee Line into Docklands will be met from the Reserve. The gross cost of this project will be £541 million in the Survey period. Increased provision for Post Office supports investment to deal with increasing traffic volumes and improve quality of service. Reductions in year 3 on British Shipbuilders reflect disposal of remaining yards and assets. Electricity prices are planned to rise by 6½ per cent in 1990-91.

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Central government support for local authority current expenditure

26. Revenue Support Grant and payments of non-domestic rates will be around £1½ billion higher in GB than the 1989-90 levels, as adjusted for functional changes. This reflects the introduction in England and Wales in April 1990 of the new community charge system. There are also significant increases in a number of specific grants to local authorities within departmental programmes. Total central government support for local authority current expenditure will rise further in the two later years. An additional £670 million has been provided in 1990-91 for transitional grants to phase in the new community charge system, rising to some £800 million in 1991-92, reflecting the costs to the Exchequer of the new area protection grant which will replace the area safety net.

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HOUSE OF COMMONS

Mr John Maples (Con - Lewisham West):

To ask the Secretary of State for the Environment, if he has completed his review of the homelessness legislation; and if he will make a statement.

MR CHRIS PATTEN

We are publishing the full conclusions of our Review of the homelessness legislation today, and copies have been placed in the Library of the House.

Our Review has looked at the role and purpose of the homelessness legislation and at its effects. The legislation - now part III of the Housing Act 1985 - was enacted in 1977 as the Housing (Homeless Persons) Act, an all Party measure. Briefly, it requires local housing authorities to find accommodation for people they judge to be homeless according to the criteria specified in the Act.

We believe that the Act remains important, as a "long stop" measure to help people in need who have become homeless through no fault of their own. The present terms of the Act strike a reasonable balance between the interests of the genuinely homeless and others in housing need. We do not intend therefore to change the law, but we have proposals to make it work better.

We have also concluded that local councils remain the right bodies to take the lead responsibility in helping homeless people; and some of them are very good at it. However, it is clear from my Department's research and other reports that there is room for improvement. Some councils need to be much faster processing applications,

for example; some need to try harder to keep families out of temporary accommodation like bed and breakfast; and in general all councils ought to aim for a better, more consistent service. I propose to amend the Code of Guidance (to which councils must have regard) and my Department will shortly put a draft out for consultation.

The pressures of homelessness vary around the country. Statistics are neither as reliable nor as sensitive as I would like. For example, those figures most quoted - the numbers of homeless acceptances - can be affected as much by local policy as by real needs. But it is apparent that the problems are concentrated in London and the South East. I propose to designate those regions as "pressure areas" and to target to them additional resources and help. In particular, we are providing an extra £250m for these areas over the next two years - £148m next year, and £102m in 1991/92 - to help councils and housing associations provide more homes for homeless people. This £250m is on top of the major increase in the Housing Corporation's programme which will be more than doubled from £815m this year to £1736m in 1992/93. We are reviewing with the Housing Corporation and the National Federation of Housing Associations how this programme can best be distributed to make the maximum impact on housing need, including homelessness.

We must also make the most of the housing we already have; and this means effective management. Councils and housing associations have empty houses they must bring into use and the extra resources will help where necessary. Helping tenants to move, where they want to, is also important especially if this frees vacancies in the pressure areas. I will provide 100% funding and support for a new mobility organisation, formed from the three existing bodies, to provide a better targeted service.

I will continue to encourage the important contribution of the voluntary sector and greatly increased grant aid will be available from next year for homelessness projects. We also want to stop people becoming homeless, as well as helping them when they have got to crisis point. Good practical advice can be vital and I want to set up a comprehensive, national service. Urgent discussions will be held with the National Association of Citizens' Advice Bureaux and other voluntary bodies.

There is concern - which we share - about proper protection and help for young people who leave home and come to live in our inner cities. This affects the responsibilities of a number of departments, which are reviewing at present the way their policies work together. The Government will make further announcements about this soon.

We believe it is essential to make this concentrated attack on the problems of homelessness, but these must not be regarded as separate issues, outside the scope of housing policies in general. We cannot just try to treat symptons, when causes lie deeper. The real and long-term remedies are to be found in an effective housing strategy, based on the contributions of the private and the public sectors, on the harnessing of the market to deliver opportunities and choice, on the targeting of resources to meet needs and on the efficient management of the stock. That is the strategy of the Government and we shall pursue it vigorously for the benefit of the community and those who are homeless or in need.

Wednesday 15 November 1989
Department of the Environment

5857/88/89
(18)

45a/2 pc.cjr/4.14.11.

MP

FROM: C J RILEY (MP)
DATE: 14 November 1989
Extn: 4439

PS/CHANCELLOR

cc Sir T Burns
Mr Sedgwick
Mr Davies
Mr Ritchie
Mr O'Donnell

FISCAL POLICY IN 1989-90

We can make the following points about the PSDR excluding privatisation proceeds in 1989-90:

- very little changed from the Budget forecast (actually very slightly slower both in absolute terms and as a per cent of GDP);

- the same percentage of GDP as in 1988-89 (about £1 billion higher in absolute terms).

2. As I mentioned, the formulation in the speaking note for Cabinet needs to be amended. And the Chancellor might wish to insert a comparison with last year along these lines into the Oral Statement (at the end of paragraph 27).

CJR

C J RILEY