

**SECRET**

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Public Expenditure & Cash Limits

[In attached folder: Departmental Press Release about the Autumn Statement 1989] [+ 1989 Medium Statement.]

ECONOMIC POLICY

Part 1: May 1979

Part 43: August 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2-88</del>							
<del>3-10-89</del>							
<del>6-10-89</del>							
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<del>19-12-89</del>							
PART 43							
ENDS							

PREM 19/2627

● PART 43 ends:-

PG to HMT 21/12/89

PART 44 begins:-

Cab Office Minute 5-1-90

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

CM 879 - HM Treasury - AUTUMN STATEMENT 1989.  
Presented to Parliament by the Chancellor of the Exchequer by  
Command of Her Majesty November 1989 Select Committee on the  
Published by HMSO - ISBN 0 10 108792 6

Signed J. Gray Date 27/9/2016

**PREM Records Team**



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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

21 December 1989

*Dear Carys,*

**FINANCIAL REPORTING TO PARLIAMENT**

The Prime Minister was grateful for the Chief Secretary's minute of 18 December. She is content for him to proceed as proposed with the publication of a short White Paper on 9 January.

I am copying this letter to the Private Secretaries to other members of the Cabinet, Murdo Maclean (Chief Whip's Office), and Sonia Phippard (Cabinet Office).

*Pa.  
Pu*

**PAUL GRAY**

Miss Carys Evans  
HM Treasury

5

Paul.

Andrew  
Tech. Proc. office

I am happy with these proposals. Of all the elements to be GEP Financial Reporting Package the weakest was the tying together of PES reports and Estimates. The Treasury was under pressure from PAC & TCSC, the former wanting to build up Estimates, the latter PES reports. The Treasury, rightly in my view, feels a greater affinity with the TCSC view - the Estimates as part of the budgeting process, not part of the planning process. It makes more sense to display output and performance information in the former.

The decision to bury reports and Estimates together in time, albeit in separate documents, reflected the fear that if Estimates remained free standing there would be PAC pressure to build them up and thereby duplicate information in the reports.

The PAC's own preference for early publication of the reports gives the Treasury an opening for ditching the ~~combined~~ common publication date. This will also avoid a very complex data problem. Merged publication of reports would require substitution of the PES figures for year 1 with those agreed after Estimates scrutiny.

My conclusion is that by a roundabout route the Treasury has ended up at the ideal point, with the advantage of being able to say that in doing so it is responding to PAC preferences.

AT



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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

19 December 1989

*Dear Caryl,*

**PUBLICATION OF THE 1990 PUBLIC EXPENDITURE  
WHITE PAPER**

Thank you for your letter of 15 December which the Prime Minister has seen. She is content with the plan to publish the 1990 Public Expenditure White Paper on 30 January.

I am copying this letter to the Private Secretaries to Ministers in charge of departments, Murdo Maclean (Chief Whip's Office) and Sonia Phippard (Cabinet Office).

*Yours,  
Paul*

PAUL GRAY

Miss Carys Evans,  
Chief Secretary's Office

*DS*



Prime Minister

Andrew and I suggest this proposal for early publication of the departmental reports in advance of the Estimates. Contact with this proposal and for the short White Paper to be published on 9 January?

FROM: CHIEF SECRETARY  
DATE: 18 December 1989

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

Recd  
with Agreement

The structure of the public expenditure documents has been the subject of considerable discussion over a number of years. The TCSC and the PAC have put forward their own ideas and in May 1988 the Government set out its proposals in a White Paper (Cm 375). We proposed that the main public expenditure totals would be published in an expanded Autumn Statement as soon as possible after the completion of the Survey. The detailed plans would be contained in separate departmental reports, which would be published on or before Budget day, simultaneously with the Estimates.

2. The TCSC and the PAC broadly welcomed these proposals and we began to implement them last year. The only outstanding issue is the timetable for publishing the new departmental reports. In a report in June this year, the PAC recommended that the publication of both the Estimates and the departmental reports should be brought forward to January, to allow time for their consideration by Parliament before the end of the financial year. In our initial response, we promised to look again the timetable proposed in Cm 375.

3. Consultation with Departments has confirmed that we could not significantly advance the publication of the Estimates without weakening the Estimates scrutiny.

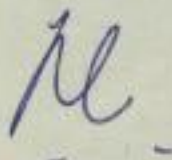
4. The proposals in Cm 375 were a compromise between the conflicting objectives of publishing departmental reports as soon as possible and publishing them simultaneously with the Estimates. The PAC now appears to be giving greater weight to the first of these objectives. Moreover, the move to the new planning total has greatly improved the alignment between the plans and the Estimates, which was one of the purposes of suggesting their simultaneous publication.

5. I conclude that the best course is to publish the departmental reports within a few weeks of each other in January/February, and the Estimates (as now) around the time of the Budget. I propose that we do this in 1991, but review the timetable for later years in the light of experience and any further comments from the TCSC and the PAC.

6. If you and colleagues are content, I recommend that these conclusions should be published in a short White Paper, a draft of which is attached. It has already been agreed between officials. The White Paper also provides a convenient opportunity to publish the Treasury's guidance on the common core of financial information to be contained in departmental reports, as requested by the TCSC. This appears in the Annex to the draft White Paper.

7. I would propose to publish the White Paper on Tuesday 9 January, ahead of the 1990 public expenditure White Paper at the end of that month.

8. I am copying this minute to Cabinet colleagues, to Timothy Renton, to Sir Robin Butler and to Bernard Ingham.



NORMAN LAMONT



# Financial Reporting to Parliament

## Introduction

In the White Paper, "Financial Reporting to Parliament", (Cm 375), the Government set out proposals for future publication of financial information. These included the introduction of departmental reports, to be published in March alongside the Estimates. The Treasury and Civil Service Select Committee (TCSC) broadly welcomed the proposals in Cm 375 in their Sixth Report for 1987-88 (HC 614). After consulting with other departmental Select Committees, however, the Public Accounts Committee (PAC) said in its Eighteenth Report for 1988-89 (HC 354) that they did not consider the deferral of the publication of departmental reports to March to be a satisfactory way of bringing the reports alongside the Estimates and urged the Treasury to examine the possibility of bringing forward the publication of both documents to January.

2. The Government replied to the PAC's Report on 19 July 1989 (Cm 747) pointing out that there is a conflict between the objectives of bringing departmental reports alongside the Estimates and the publication of financial information as soon as it is available. It undertook to consider further the timing issues raised by the PAC's Eighteenth Report.

3. This White Paper accordingly presents the Government's consideration of these issues and its proposals for future action.

## Government Proposals

### *The timing of Departmental Reports*

4. The Government recognises the force of the argument that the key information on public spending plans should be published as soon as it is available. As explained in Cm 747, this is achieved by the current publication timetable for the Autumn Statement, the Public Expenditure White Paper, and the Estimates.

5. The proposal in Cm 375 that departmental reports should be published at the same time as the Estimates, in March, was intended to meet both Committees' interest in closer alignment between the two sets of documents. In its 8th Report of 1986-87 (HC 98), the PAC suggested that alignment should be carried to the point of publishing information about the plans and the Estimates in a combined document. The Government noted in its response (Cm 177) that this would have implications for the timetable. While Cm 375 proposed to retain two separate documents, simultaneous publication was to be on the basis that the plans for the year immediately ahead would have been those agreed in the Survey, as modified by subsequent Estimates scrutiny. The proposal to publish departmental reports in March provided the minimum time needed to allow for the full reconciliation of the detailed figures in both sets of publications. However, in its 18th Report of 1988-89, the PAC attached more weight to the need to publish details of departments' expenditure plans as soon as practicable.

6. There is an inevitable conflict between the objective of publishing information as soon as it is available, and that of publishing departmental reports and Estimates simultaneously. For reasons set out in Cm 747, the Government believes that the effectiveness of Estimates scrutiny would be jeopardised if the publication of Estimates were to be advanced to January.

7. In reconsidering this issue, the Government has taken account of two developments since the publication of Cm 375. First, the changes announced in the White Paper "A New Planning Total" (Cm 441) mean that, in future, virtually all Supply expenditure will fall within the planning total. This will greatly improve the read-across between the public expenditure plans and the Estimates. Departmental reports will in future identify virtually all of the expenditure items which will be submitted to Parliament in the Estimates, and the reconciliations shown in each Estimates booklet will be more comprehensive.

8. Second, as explained in the "The Financing and Accountability of Next Steps Agencies" (Cm xyz), for many Government executive operations outturn informa-

tion in departmental reports will in future be supplemented by individual agencies' annual reports to Parliament. These reports will normally be made in the early months of each financial year, allowing the inclusion of outturn information relating to the financial year that has just ended. Agencies' reports will thus provide information for the activities they cover, both about financial results and about outturn and performance, at an earlier stage than departmental reports, whether these are published in January or March.

9. In the light of the PAC's views, and of these developments, the Government has therefore decided that a better balance between objectives could be struck by publishing departmental reports earlier than proposed in Cm 375, as far as possible retaining broadly the present timetable, at least for 1991. This timetable will, however, be kept under review in the light of any further comments from the PAC and TCSC and experience with the first round of departmental reports.

#### *Estimates timetable*

10. While the Government will continue to look for ways to advance publication of the Estimates, consistent with leaving sufficient time for their preparation and scrutiny, it does not expect to be able to advance the timetable significantly for the time being. It will continue to look for ways of improving the read-across between departmental reports and the corresponding Estimates.

#### *The content of Departmental Reports ("The Common Core")*

11. The Government has already made it clear that departmental reports will continue to follow a broadly uniform presentation of public expenditure plans and outturns, drawn from a common database and following the pattern of the departmental chapters in the 1989 White Paper. Information about this "common core" material is set out in the attached annex. Departmental reports will be jointly sponsored by the relevant Secretary of State and the Chief Secretary to the Treasury.

#### *Conclusion*

13. In the light of the PAC's views, the Government now proposes to publish departmental reports earlier than proposed in Cm 375, as soon as the relevant information is available. Estimates will follow as soon as possible thereafter. With the earlier publication of departmental reports, the plans published will be those agreed in the Survey and will not reflect the subsequent detailed changes resulting from Estimates scrutiny. Differences between plans and Estimates will be set out in the Estimates booklets.

14. For 1991, the intention is to follow broadly the same timetable as for the 1989 Public Expenditure White Paper and Estimates. The Government will keep these arrangements under review, in the light of experience with departmental reports and any further comments from the Public Accounts Committee and the Treasury and Civil Service Select Committee.

## The Content of Departmental Reports

The Treasury's guidance to departments on the content of departmental reports makes the following points.

### Common core: basic principles

2. Departmental reports will have two principal purposes: to present the Government's expenditure plans to Parliament and to report performance against previous plans. The reports should illustrate the annual cycle of planning, setting objectives and targets in relation to plans and evaluating subsequent performance against objectives and targets in reports, described in "Central Government: Financial Accounting and Reporting Framework" published by the Treasury in December 1988.

3. Within this framework, the move to separate departmental reports will allow departments more freedom to determine the style and content of their reports. Departments will be able to choose the colour and quality of the paper and bindings used; the size and style of print font; the style and layout of the text and the headings; the nature of the illustrations, photographs, charts, and other diagrams; and the extent of new material introduced into the reports. These choices will of course be influenced by discussions with their own Select Committees about the content of the reports, and with HMSO about the detailed timetable and the cost and price of each report.

4. In order to fulfil their essential purpose of reporting the Government's expenditure plans to Parliament, the documents will need to contain certain common elements. The TCSC, in its Second Report (Session 1987-88) recommended that:

"The basic financial information in these annual reports would follow a standard pattern agreed with the Treasury, and all departments should give the fullest possible information on objectives, targets and performance indicators and on their success in meeting these."

5. The aim is to enable Parliament to put together a comprehensive picture of public expenditure across all programmes and departments, and to relate the plans set out in the departmental reports to the Estimates and the eventual outturn. The PAC also attaches great importance to high standards of financial reporting. The PAC's Eighth Report (Session 1986-87) set out the principles of consistency, relevance, and reliability, and recommended that the Treasury draw up and operate criteria to reflect these principles. (This was done in the Treasury publication referred to in paragraph 2 above). The same report stressed the need for clarity and simplicity in the read-across from the PEWP to the Estimates.

6. The Government accepted the need for a common core in "Financial Reporting to Parliament" (Cm 375). The TCSC's Sixth Report, Session 1987-88 reiterated the need for a common core, and listed the components which it regarded as minimum requirements.

7. Against this background, the following section sets out Treasury proposals for the material to be included in the common core. It falls into two groups. Material in Section A must, in the Treasury's view, be presented either in a common format or at a common location, or both, in order to enable Parliament to be able to put together a comprehensive picture. Section B contains essential material, which must appear somewhere in the reports, though the format and location will be left to Departments' discretion.

### Components of the common core

8. Each report must, in general, contain a description of the Department's main responsibilities, and of the public expenditure programmes for which it is accountable. The reports should therefore include the following components.

**A Components which must have a standard format and/or location within the report.**

(i) *Cash plans.* As is now the case with the departmental chapters of the Public Expenditure White Paper, there will be a table in a standard format, situated at the very beginning of each report. The table will be produced by the Treasury from the Public Expenditure Survey database. As now it will cover a nine-year period, spanning five outturn years, the current year, and the three plan years, and show the following information:—

- (a) central government's own expenditure (distinguishing between voted and other expenditure);
- (b) central government grants to local authorities (identifying most specific grants and EC current grants as separate items);
- (c) other elements of central government support for local authorities as appropriate (eg non-domestic rate payments, credit approvals);
- (d) financing requirements of public corporations (distinguishing between voted and other items).

The breakdown of voted expenditure in these tables will continue to reflect the structure of the Votes as presented in the Estimates. This may change, over time, to reflect policy changes and changes to the Estimates structure.

(ii) *A brief statement of the department's overall aims and objectives,* quantified where possible, giving ordered priorities and listing, where appropriate, the criteria by which policy changes are assessed (see for instance Cm 615 paragraph 4).

(iii) *Running costs and manpower* including reference in the text where appropriate to provision agreed on the basis of management plans covering the full Survey period; any areas of activity agreed for net control; explanation of any significant changes to the plans compared with the previous year; and, for the Estimates year, any significant changes to either cash or manpower provision compared with figures published earlier in the year. The tabular presentation of running costs and manpower information should follow that agreed for the 1989 PEWP.

(iv) *Local authority expenditure.* For those departments where it is relevant, a table should be included showing local authority expenditure for the five outturn years and the current year. The table should as a minimum give a functional breakdown for current and capital expenditure separately.

**B Essential features of the report as a whole**

(i) *Evaluation, output and performance information.* The report should contain information about the achievements of all the main departmental activities, including achievements against targets, quantified wherever possible. This should:

- (a) make clear how the activities relate to the stated aims of the department;
- (b) cover both programme expenditure and running costs;
- (c) provide information on effectiveness, including the results of evaluation. For some programmes it may be necessary and useful to give intermediate measures. Where possible, information on final outputs should be displayed.
- (d) indicate the efficiency of the programme ie relate the achieved benefits to the input costs (in terms of expenditure and, if appropriate, manpower). This can draw on the results of evaluation. Information about unit costs is particularly valuable.

As well as reporting on achievements, departments should provide targets for future years, and set out the information in such a way that data for outturn years can be readily compared with previously published targets for those years.

(ii) *Major initiatives to secure better value for money* should be described, setting out the objectives of each initiative, what has been achieved to date, and what is planned to be achieved. This should cover aspects of the department's personnel policies relevant to securing better value for money from running costs; and could also cover, where appropriate, relocation and initiatives to improve energy efficiency.

(iii) *Next Steps Agencies.* In the case of Agencies, Departments should identify separately gross and net cash provision, manpower and, where appropriate, running

costs. They should also provide for each Agency a description of its aims and objectives and the value-for-money improvements planned for the future and achieved in the past, related, where possible, to targets set in previous years. Departments should indicate for each Agency the main features of its financial regime (eg gross or net control, trading fund). The amount of detail required should be judged case by case. Cross references should be given to Agencies' separately published reports and accounts for fuller information. (Cash provision, running costs and manpower for Next Steps Agencies will be included in the material at A(i) and (iii)). Departments should also report briefly on the progress of their Next Steps implementation programmes.

(iv) *Information on public corporations* should include the provision for their financing requirements, and should also include:—

- (a) objectives set by the Government and by the industry;
- (b) performance against external finance limits, (EFLs). Performance should also be related to agreed targets, especially formal financial targets and current cost return on capital, aims for costs, targets set in corporate plans, performance reviews, efficiency studies and published reports;
- (c) outturn and plans for internal resources and external finance, including Government grants; revenue forecasts and factors determining revenue and costs; and comparisons of planned expenditure with outturn;
- (d) investment plans;
- (e) current outlook; and, where relevant, progress to privatisation.

(v) *Information on Non-Departmental Public Bodies (NDPBs)*. Departments currently include information on many of their sponsored bodies in their White Paper chapters. At least an 'equivalent' level of detail should be retained in future. Similar treatment may be appropriate for any body which receives significant public funding, including some which are not classified as NDPBs.

(vi) *Expenditure on publicity and advertising*. The TCSC (Seventh Report, 1987-1988) recommended that departmental reports should give information about the costs of major publicity and advertising expenditure. Departments who spend £½ million or more a year on paid UK publicity should include this information in their departmental reports.

(vii) *Explanations of changes in plans from the previous White Paper*. As recommended by the TCSC, there should be an explanation of any differences between plan and forecast outturn for the current year.

(viii) *A cross reference to the relevant Estimates booklets*

(ix) *A bibliography along the lines of those currently included.*

(x) *Explanation of recent significant changes in the classification or allocation of expenditure.*

(xi) *Reference to any significant receipts from the EC in respect of the department's programmes.*

(xii) *Description where relevant of the split of responsibility and expenditure between the Department and the territorial departments.*

(xiii) *In the case of the territorial departments, a description of the block arrangements.*



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Prime Minister  
Content with  
30 January?

Treasury Chambers, Parliament Street SW1P 3AG

REC  
15/12

Paul Gray Esq  
Private Secretary  
10 Downing Street  
London  
SW1

15 December 1989  
Yes no

Dear Paul

PUBLICATION OF THE 1990 PUBLIC EXPENDITURE WHITE PAPER

The Chief Secretary proposes that the 1990 public expenditure White Paper should be published on 30 January, the same date as the 1989 PEWP. In line with the low-key presentation adopted last January, he does not propose to hold a press conference.

2 We would propose to give the press embargoed confidential final revise copies on the previous day.

3 If the Prime Minister is content, we will arrange for the date to be announced by Written Answer a week or so before publication. We will circulate full details of the publication arrangements, and arrangements for clearance and issue of departmental press notices, nearer the time.

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

Yours ever

Cmgs

MISS C EVANS  
Private Secretary



COMMUNICATIONS

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From the Secretary of

State for Health

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1

14 December 1989

Mr Norman,

1989 PUBLIC EXPENDITURE SURVEY: HEALTH AND PERSONAL SOCIAL SERVICES

WITH REQUEST FOR REVISION

Thank you for your letter of 6 November which I agree accurately reflects the outcome of our discussions.

I am grateful for your agreement to reallocation of provision between cash-limited programmes. I am not at present minded to make any significant adjustments but I should like to examine the implications of the settlement in more detail before taking any final decisions and would therefore like to keep this option open. My officials will, of course, keep you informed.

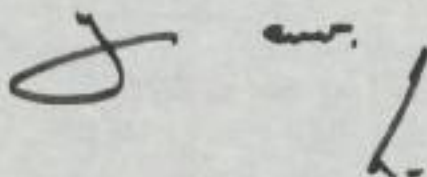
I am content that the resource consequences of next year's Review Body awards are considered in the usual way when the Reports are received.

My present expectation is that I shall wish to return to the question of PAMs training in the next Survey. In the meantime, I am asking my officials to pursue these proposals with yours so that any further preparatory work can be completed in advance. Any delay beyond 1991 in tackling the present levels of student support would have very serious consequences for recruitment to these professions.

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I welcome your agreement to look again at Main Estimate time at the latest figures on commitments on the cash limited elements of FPS expenditure. This is important if these are to be fully covered and the margin for growth to which we are also committed is to be maintained.

Copies of this letter go to the Prime Minister, Peter Brooke, Malcolm Rifkind and Peter Walker.



KENNETH CLARKE





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*cc Press  
Political  
Questions*

*(Handwritten mark)*

Andrew Turnbull Esq  
Principal Private Secretary  
Prime Minister's Office  
Downing Street  
LONDON

6 December 1989

*Dear Andrew,*

**PUBLIC EXPENDITURE SCOTLAND: PARLIAMENTARY STATEMENT**

Further to my letter of yesterday I now enclose in final form a copy of the statement my Secretary of State will make in the House this afternoon.

*Yours sincerely  
Len Wright*

LEN WRIGHT  
Private Secretary

PUBLIC EXPENDITURE SCOTLAND

With permission, Mr Speaker, I should like to make a statement about public expenditure in Scotland.

Following the announcement of the Government's public expenditure plans by my rt hon Friend the Chancellor of the Exchequer on 15 November, I have now completed detailed decisions on the allocation of resources to the expenditure programmes for which I am responsible in Scotland. The total resources that I am able to deploy next year amount to just over £9.5bn. This is £525m greater than the latest estimate of outturn in the current year. Plans for future years will take the total to just over £10bn in 1991-92 and to almost £10.4bn in 1992-93, the third year of the Survey.

In making my decisions on the resources to be allocated to individual programmes over the next 3 years I have, of course, had close regard to what are known as the "formula consequentials" - that is to say the amounts which reflect the increases in the relevant comparable programmes south of the Border. My final decisions, however, reflect very clearly the priority which I and my colleagues attach to particular Scottish needs, and the requirements of particular programmes. The overall effect of my decisions is summarised in a table which is available from the Vote Office and will appear in Hansard. I would single out, however, a number of key priority areas.

We are all concerned to see a significant improvement in our drinking water and the quality of our environment. In order to achieve this, the Government will provide substantial additional resources, over and above the operation of the normal formula arrangements, for increased capital expenditure on water and sewerage services. This will enable me to boost capital expenditure above this year's level by more than £100m over 3 years. This will take our investment

level to no less than £190m in 1992-93, almost 50% above this year's level, and provide a programme of £500m over 3 years. I am sure this will be widely welcomed.

I have also substantially increased the Transport programme, by nearly £30m next year compared with this and made further increases which will bring the programme to over £400m in 1992-93. This will enable us to make a significant start on the new M74, further improvements to the M8, the A96 and to other important trunk and local authority roads.

In Housing the resources available to Scottish Homes will be some £36m (11%) greater than for the current year. I have substantially increased the public sector contribution to the funding of the local authorities' capital programme. The provisional net capital allocations for council housing will increase in total by £25m, 15%. This would allow authorities to maintain the capital programme of improvement and repair of their own stock at the level per house announced this time last year, notwithstanding a forecast reduction in the level of receipts from sales. If local authorities wish to finance higher programmes of maintenance or new construction, they can increase receipts by speeding up sales, as Scottish Homes and the New Towns have done so successfully. My decisions on housing also recognise the importance of the four partnership areas, Castlemilk, Ferguslie Park, Wester Hailes and Whitfield. I am including in these increases an extra £1m for those areas, split almost equally between Scottish Homes and the local authorities' capital programmes. These decisions on housing in Scotland clearly respond to the major priorities at the present time.

The priority which we attach to the partnerships and similar deprived areas is underlined by the 50% increase in the Urban Programme in 1990-91, which will inject an additional £16m of Government grant into projects improving the social infrastructure and employment opportunities in these areas.

The Government's strong commitment to Education is underlined by my expenditure decisions. My Education programme will rise by 12% next year to £439m and to £500m in 3 year's time. Expenditure then will be over 25% higher than it was this year. In recognition of the fact that more of our young people and mature students wish to enjoy the benefits of higher education, I am increasing support for students by £134m over the next 3 years. This means we will be planning for an extra 6,000 students in Scotland next year, and 8,000 in 1991-92.

My spending decisions also reflect the Government's firm commitment to improving the quality of our environment and supporting the maintenance of our heritage. There will be an increase of 10% in funds for the Countryside Commission for Scotland next year and new provision of at least £3m over the next three years for projects within the Central Scotland Woodland initiative; a 16% increase in historic buildings grants next year; an extra £2.5m over three years for repairs to the Royal Scottish Academy building in Edinburgh, and a 25% increase in the National Library purchase grant to enable them to make heritage purchases and fill gaps in their collection.

Finally, I would single out Health for a particular mention. The Health programme is, of course, the biggest single programme within my block and it accounts for almost one-third of the total resources I have at my disposal. Indeed, expenditure per head on health in Scotland is well over 20% above the comparable level in England. I continue to attach a very high priority to the Health Service. I have therefore allocated to it an additional £220m over this year's expenditure; which is more than the formula consequential from comparable expenditure in England. Overall, it takes the Health programme in Scotland to a figure in excess of £3bn for the first time, almost 3 times the size of the programme which we inherited on taking office 10 years ago. By 1992-93, the total expenditure will be fully £500m higher than in the current year.

In addition to these key decisions on programmes, I have, as already announced, set aside resources to enable a significant start to be made in bringing business rates in Scotland into line with those south of the Border. Business ratepayers will be paying £80m less next year than would otherwise be the case.

I have also already announced details of the provision I am making for the SDA and HIDB. The gross expenditure of the SDA will reach a new record level of £180m next year, while the HIDB will have an additional £9m over the next 3 years in recognition of the particular problems of Caithness. Both bodies have welcomed the generous provision being made.

The decisions I am announcing today represent good news for Scotland. They will enable us to address the real priorities and needs of the Scottish people. I commend them to the House.



£ million

	1989-90 Estimated (2) Outturn		1990-91 Planned Provision		1991-92 Planned Provision		1992-93 Planned Provision	
	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Agriculture	200	210	233	233	240	240	250	250
Industry	265	340	251	352	260	350	250	340
Water	130	133	142	143	170	170	190	190
Tourism	12	12	13	13	10	10	10	10
Transport	352	359	382	387	380	390	400	410
Housing (3)	621	1,109	639	1,024	650	1,140	660	1,030
OES (4)	141	211	133	194	140	200	120	180
LOPS	274	288	302	317	300	320	320	340
Education (including Sport)	390	396	439	440	490	490	500	500
Arts & Libraries	28	28	35	35	40	40	40	40
Health	2,714	2,821	2,937	3,041	3,090	3,190	3,240	3,330
Social Work	38	38	38	38	40	40	40	40
OPS	128	149	139	169	160	190	160	190
NI external financing	-60	-60	-118	-118	10	10	10	10
Sub-Total	5,233	6,033	5,560	6,268	5,980	6,780	6,190	6,860
Central Government support for local authority current expenditure	3,818	3,818	4,016	4,016	4,110	4,110	4,210	4,210
Total	9,051	9,851	9,576	10,284	10,090	10,890	10,400	11,070

Note: Owing to rounding, individual figures do not necessarily sum to the totals. Figures for 1991-92 and 1992-93 are rounded to nearest £10m.

(1) The figures for each service consist of Central Government's own expenditure, net capital expenditure allocations and grants to Local Authorities and Public Corporations' expenditure.

(2) The introduction of the New Planning Total means that it is not possible to make precise comparisons between the expenditure plans for 1990-91 and those for 1989-90. It is for this reason that the above table shows comparison between estimated outturn and plans. The estimated outturn figure for 1989-90 is higher than that shown in the Autumn Statement because it takes account of supplementary Estimates and supplementary capital allocations since the figures for the Autumn Statement were compiled.

(3) Scottish Homes' estimated gross outturn, excluding NLF repayments, in 1989-90 is £313m; the proposed figure for 1990-91 is £349m. Local Authorities' latest net capital allocations for investment in their own stock in 1989 including the recently announced supplementary allocations, total £164m. The provisional net allocations for 1990-91 will be £189m.

(4) Estimated urban programme grants in 1989-90 are £32m; the proposed figure for 1990-91 is £48m.



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Andrew Turnbull Esq  
Principal Private Secretary  
Prime Minister's Office  
Downing Street  
LONDON

Prime Minister  
Content for Mr. Rufford to  
give this statement tomorrow.  
5<sup>th</sup> December 1989

Dear Andrew,

Yes

DM

**PUBLIC EXPENDITURE SCOTLAND: PARLIAMENTARY STATEMENT**

I enclose a copy of a statement my Secretary of State proposes to make in the House tomorrow afternoon (6 December) and I should be grateful for your clearance and that of copy recipients by 10.00 am tomorrow.

Copies of this letter go to Carys Evans (Chief Secretary's Office), Tim Sutton (Lord President's Office), Murdo Maclean (Chief Whip's Office Commons), Ralph Hume (Chief Whip's Office Lords), Gillian Kirton (Lord Privy Seals Office), Bernard Ingham (No 10), Trevor Woolley (Cabinet Office) and to other Private Secretary colleagues in MAFF, Department of Trade and Industry, Environment, Employment, Transport, Home Office, Department of Education and Science, Health, Welsh Office and Northern Ireland Office and the Office of Arts and Libraries.

Yours sincerely  
Len Wright

LEN WRIGHT  
Private Secretary

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PUBLIC EXPENDITURE SCOTLAND

ORAL STATEMENT BY SECRETARY OF STATE, DECEMBER 1989

1. With permission, Mr Speaker, I should like to make a statement about public expenditure in Scotland.

2. Following the announcement of the Government's public expenditure plans by my rt hon Friend the Chancellor of the Exchequer on 15 November, I have now completed detailed decisions on the allocation of resources to the expenditure programmes for which I am responsible in Scotland. The total resources that I am able to deploy next year amount to just over £9.5bn. This is £528m greater than the latest estimate of outturn in the current year. Plans for future years will take the total to just over £10bn in 1991-92 and to almost £10.4bn in 1992-93, the third year of the Survey.

3. In making my decisions on the resources to be allocated to individual programmes over the next 3 years I have, of course, had close regard to what are known as the "formula consequentials" - that is to say the amounts which reflect the increases in the relevant comparable programmes south of the Border. My final decisions, however, reflect very clearly the priority which I and my colleagues attach to particular Scottish needs, and the requirements of particular programmes. The overall effect of my decisions is summarised in a table which is available from the Vote Office and will appear in Hansard. I would single out, however, a number of key priority areas.

4. We are all concerned to see a significant improvement in our drinking water and the quality of our environment. In order to achieve this, the Government will provide substantial additional resources, over and above the operation of the normal formula arrangements, for increased capital expenditure on water and sewerage services. This will enable me to boost capital expenditure above this year's

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level by more than £100m over 3 years. This will take our investment level to no less than £190m in 1992-93, almost 50% above this year's level, and provide a programme of £500m over 3 years. I am sure this will be widely welcomed.

5. I have also substantially increased the Transport programme, by nearly £30m next year compared with this and made further increases which will bring the programme to over £400m in 1992-93. This will enable us to make a significant start on the new M74, further improvements to the M8, the A96 and to other important trunk and local authority roads.

6. In Housing the resources available to Scottish Homes will be some £35m (11%) greater than for the current year. I have substantially increased the public sector contribution to the funding of the local authorities' capital programme. The provisional net capital allocations for council housing will increase in total by £25m, 15%. This would allow authorities to maintain the capital programme of improvement and repair of their own stock at the level per house, announced this time last year, notwithstanding a forecast reduction in the level of receipts from sales. If local authorities wish to finance higher programmes of maintenance or new construction, they will need to increase receipts by speeding up sales, as Scottish Homes and New Towns have done so successfully. My decisions on housing also recognise the importance of the four partnership areas, Castlemilk, Ferguslie Park, Wester Hailes and Whitfield. I am including in these increases an extra £11m for those areas, split almost equally between Scottish Homes and the local authorities' capital programmes. These decisions on housing in Scotland clearly reflect and respond to the major priorities.

7. The priority which we attach to the partnerships and similar deprived areas is underlined by the 50% increase in the Urban Programme in 1990-91, which will inject an additional £16m of Government grant into projects improving

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the social infrastructure and employment opportunities in these areas.

8. The Government's strong commitment to Education is underlined by my expenditure decisions. My Education programme will rise by 12% next year to £439m and to £500m in 3 year's time. Expenditure then will be over 25% higher than it was this year. Within that I am increasing support for students by £134m over the next 3 years in recognition of the fact that more of our young people and mature students wish to enjoy the benefits of higher education.

9. My spending decisions also reflect the Government's firm commitment to improving the quality of our environment and supporting the maintenance of our heritage. There will be an increase of 10% in funds for the Countryside Commission for Scotland next year and new provision of at least £3m over the next three years for projects within the Central Scotland Woodland initiative; a 16% increase in historic buildings grants next year; an extra £2.5m over three years for repairs to the Royal Scottish Academy building in Edinburgh, and a 25% increase in the National Library purchase grant to enable them to make heritage purchases and fill gaps in their collection.

10. Finally, I would single out Health for a particular mention. The Health programme is, of course, the biggest single programme within my block and it accounts for almost one-third of the total resources I have at my disposal. Expenditure per head on health in Scotland is £550, which is well over 20% above the comparable level in England. Despite this very high starting point I am able to maintain the overall size of the Health programme in real terms with a total increase of some £220m over this year's expenditure. This increase covers the cost of implementing the NHS Review. I attach a very high priority to the Health Service, and have allocated to it more than the formula consequentials from comparable expenditure in England. Overall, it takes the

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Health programme in Scotland to a figure in excess of £3bn for the first time, and to a figure which is almost 3 times the size of the programme 10 years ago. By 1992-93, the total expenditure will be fully £0.5bn higher than in the current year.

11. In addition to these key decisions on programmes, I have, as already announced, set aside resources to enable a significant start to be made in bringing business rates in Scotland into line with those south of the Border. Business ratepayers will be paying £80m less next year than would otherwise be the case. I am, of course, looking to local authorities to contribute the modest sum of £13m through efficiency savings.

12. I have also already announced details of the provision I am making for the SDA and HIBD. The gross expenditure of the SDA will reach a new record level of £180m next year, while the HIBD will have an additional £9m over the next 3 years in recognition of the particular problems of Caithness. Both bodies have welcomed the generous provision being made.

13. The decisions I am announcing today represent good news for Scotland. They will enable us to address the real priorities and needs of the Scottish people. I commend them to the House.

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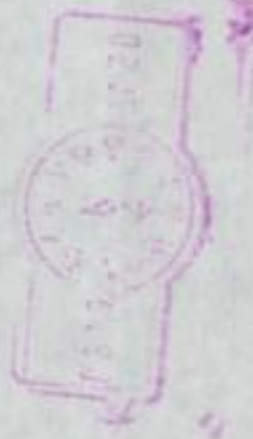
£ million

	1989-90 Estimated (1) Outturn		1990-91 Planned (2) Provision		1991-92 Planned Provision		1992-93 Planned Provision	
	Net	Gross	Net	Gross	Net	Gross	Net	Gross
Agriculture	200	210	233	233	240	240	250	250
Industry	265	340	251	352	260	350	250	340
Water	130	133	142	143	170	170	190	190
Tourism	12	12	13	13	10	10	10	10
Transport	352	359	382	387	380	390	400	410
Housing (3)	621	1,109	639	1,024	650	1,140	660	1,030
OES (4)	141	211	133	194	140	200	120	180
LOPS	274	288	302	317	300	320	320	340
Education (including Sport)	390	396	439	440	490	490	500	500
Arts & Libraries	28	28	35	35	40	40	40	40
Health	2,714	2,821	2,937	3,041	3,090	3,190	3,240	3,330
Social Work	38	38	38	38	40	40	40	40
OPS	128	149	139	169	160	190	160	190
NI external financing	-60	-60	-118	-118	10	10	10	10
Sub-Total	5,233	6,033	5,560	6,268	5,980	6,780	6,190	6,860
Central Government support for local authority current expenditure	3,818	3,818	4,016	4,016	4,110	4,110	4,210	4,210
Total	9,051	9,851	9,576	10,284	10,090	10,890	10,400	11,070

Note: Owing to rounding, individual figures do not necessarily sum to the totals. Figures for 1991-92 and 1992-93 are rounded to nearest £10m.



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- (4) Estimated urban programme grants in 1989-90 are £32m; the proposed figure for 1990-91 is £48m.







RA  
Pres  
4/12

Treasury Chambers, Parliament Street, SW1P 3AG

Mr J H (Juan) Kelly  
President  
General Council of British Shipping  
30-32 St Mary Axe  
LONDON EC3A 8ET

4 December 1989

Dear Mr Kelly

Thank you for your letters of 29 November to the Chancellor of the Exchequer and myself, enclosing your 1990 Budget submission.

The Chancellor and I have read your submission with interest, and I can assure you that your representations will be given careful consideration. I look forward to discussing them further with you at our lunch on 7 December.

I am copying this letter to the Prime Minister, the Secretaries of State for Foreign and Commonwealth Affairs, Defence, Trade and Industry, Transport and the Chancellor of the Duchy of Lancaster.

Yours sincerely

PETER LILLEY

GENERAL COUNCIL OF BRITISH SHIPPING

PRESIDENT:  
J. H. (JUAN) KELLY  
Telephone 01-283 2922

30-32 ST. MARY AXE  
LONDON, EC3A 8ET

29 November, 1989

Peter Lilley, Esq., MP  
Financial Secretary,  
HM Treasury,  
Parliament Street,  
LONDON  
SW1P 3AG

cc. PS/IR  
Mr Morgan - IR

*Dear Mr Lilley*

I have today sent to the Chancellor of the Exchequer the Shipping Industry's proposals for measures to improve the condition of the Industry for inclusion in the 1990 Finance Bill. I enclose a copy of our submission for your information. I look forward to discussing it with you on 7 December.

*Yours sincerely*

*Juan Kelly*

## GENERAL COUNCIL OF BRITISH SHIPPING

PRESIDENT:

J. H. (JUAN) KELLY  
Telephone 01-283 292230-32 ST. MARY AXE  
LONDON, EC3A 8ET

29 November, 1989

The Rt. Hon. John Major, MP  
Chancellor of the Exchequer,  
HM Treasury,  
Parliament Street,  
LONDON  
SW1P 3AG

HM TREASURY - HCU	
DATE	30 NOV 1989
FROM	FP

Dear Chancellor

BUDGET SUBMISSION 1990

As you may recall from the material which you were given from our stand at the Party Conference in Blackpool last month, British Shipping believes that modest and temporary Government stimulation of the shipping industry would bring important benefits to the economy, especially the balance of payments and to our defence capability. I am, therefore, enclosing the proposals of the General Council of British Shipping for measures for inclusion in your 1990 Budget to encourage investment in shipping.

Our industry is well managed and of great value to the economy. We are a major contributor to the balance of payments - the third largest "invisible" exporter. But we could do much more. Without some modest measures of support, our contribution will fall away all too soon, as ships are not replaced with modern tonnage or shipowners move away from the UK to more benign investment climates.

We operate in a fiercely competitive, international environment - and would not have it otherwise. However, almost all other governments recognise the special value of their shipping industries and have taken appropriate action. As a result, the level of rates that the market will bear is the level that our assisted competitors can accept.

A very large proportion of the world fleet will need to be replaced by the mid-1990s. Shipyard prices are already rising fast and this trend is expected to accelerate. Those that have not reinvested by then will be at a major disadvantage. The British fleet is already old and many ships need replacing now. However, in an overall climate which favours short-term investment, shipping is not attractive to investors in the UK at the present time. We therefore propose a package of investment aids over a limited period of, say, five years, which would enable us to enter the small window of opportunity which is now available.

We have also proposed measures to make it possible to continue to employ UK seafarers. Measures of similar effect, allied to fiscal regimes conducive to investment, have led to the Norwegian flag trebling in three years and to large-scale renewal of the Danish and German fleets. We know that they will work.

It seems to us that there is very little time for action before the cost of renewing the UK merchant fleet rockets upwards. If, with your encouragement, British shipping can seize this opportunity, we are convinced that there will be very substantial benefits to the economy and to the nation - in terms of improved balance of payments, in due course a greater tax take, continuing support for trade generally, strengthened position of the City of London as the world's centre for shipping and maritime-related activity, and firmer assurance of our defence capability.

If, on the other hand, the opportunity is lost, our members will continue to thrive - but that will be either in other countries than the UK or in businesses other than shipping. Maritime expertise at sea and ashore will rapidly disappear. These major national assets, once lost, will be very hard to reconstruct.

I hope that you will give careful consideration to the proposals contained in the paper attached. We also look forward to discussing them with the Financial Secretary when he joins us on 7 December.

I am copying this letter to the Prime Minister, the Secretaries of State for Foreign and Commonwealth Affairs, Defence, Trade and Industry, Transport; the Chancellor of the Duchy of Lancaster; and to the Financial Secretary.

*Yours sincerely*

*Ryan Keen*



**THE WAY AHEAD**  
**SUBMISSION FOR 1990 BUDGET**

**General Council of British Shipping**  
**30/32 St Mary Axe London EC3A 8ET**  
**Telephone : 01 - 2832922**  
**Fax : 01 - 6268135**

## BRITISH SHIPPING - THE WAY AHEAD

### A Memorandum by the General Council of British Shipping

#### SUMMARY

1. In the last 12 months our Norwegian, Danish and German competitors have seen substantial improvements in their fortunes. The Norwegian International Shipregister has grown by 86%. The Danish and German fleets have both turned from decline into growth.
2. This is against the backdrop of improvements in shipping markets that are as yet patchy and inadequate. But they give a foretaste of worthwhile opportunities for British shipping too, if its ageing fleet can be replaced.
3. Shipping is uniquely exposed to intense international competition. Almost all of the UK's major competitors receive significant help from their governments. Many have introduced new measures recently. The most effective are those of Norway, Denmark and FR Germany.
4. Investment in shipping is not attractive in the short term in the UK. Consequently, the British merchant fleet continues to decline and to age. UK registered ships on average are 13 years old and the total fleet, at 15.5m dwt, is down 8% on the last year. A fleet of around 13m dwt by 1992 is forecast, but new orders are at only half the rate to maintain a fleet of even that size.
5. British shipping companies have tremendous skills and expertise, at sea and ashore. But many have already diversified and few are captive members of the shipping community. For the United Kingdom to keep these skills the industry needs support. Without it, they could leach away within a very few years.
6. This would be a permanent blow to the balance of payments, to trade generally, and to a dozen other industries which draw heavily on maritime expertise. It would also severely damage the country's defence credibility. GCBS believes that already there are 300-400 too few ships, and far too few UK seamen to man them, for British shipping to meet its NATO commitments.
7. The need for help is urgent, as ship prices are likely to continue to increase dramatically in the next five years as old ships have to be replaced. Those companies who can build at today's prices will enjoy a tremendous advantage well into the next century. There is therefore both a small window of



opportunity and a longer-term threat to the viability of those who have to postpone investment.

8. Fortunately, a comparatively cheap remedy exists. The Government accepts the need to help many other sectors of British industry where the playing field is uneven - indeed most receive more Government support than does shipping. The EC Commission also accepts the need for government help to match outside competition so that the Community can enjoy the benefits that flow from a strong shipping industry. Pending the rolling-back of other countries' aids, which the Government - and GCBS - would like to see, a modest degree of pump-priming is needed for a period of, say, five years.

9. The effect on Government revenues of short-term aids to reinvestment is transitory - improved first-year allowances and rollover relief have costs which are subsequently recouped through increased corporation tax payments, and are really dependent on the scheduling of investment. Our best estimate is an average cost of £200m p.a. over the 5 year period in terms of deferred revenues. Aid to employment costs is estimated to be worth about £60m p.a. The pay-off for the whole package in direct cash terms alone would be a major contribution to the Balance of Payments that will otherwise be lost, and a substantial increase in the government's tax income from thriving shipping companies and the employment of British seafarers.

December 1989

## BRITISH SHIPPING - THE WAY AHEAD

### INTRODUCTION

1. The purpose of this paper is twofold. It describes the world scene in 1989, which has been marked by the quite exceptional improvement in the position of some of our European competitors, in Norway, Denmark and Germany. It then deals with the state of the UK fleet, the practical circumstances facing the industry now and, most importantly, the measures which other countries have recently adopted to respond to these factors. The message is one of opportunities opening up in most shipping sectors. The question is whether Government policy will assist UK shipping companies to take advantage of these opportunities, or whether the field will be left to our Continental and other competitors. Secondly, it stresses the value that the British shipping industry brings to the nation - to trade and employment, to the balance of payments, to the City of London, and to our defence capability.

2. In this analysis, the paper highlights two particular areas which require urgent attention if UK shipping companies are to make their full potential contribution to the country's welfare. These are the need for a positive climate for both re-investment in ships and for the employment of British seafarers.

### THE OUTLOOK TODAY

#### The World Scene

3. 1989 saw the continuing tremendous growth of the Norwegian fleet, up from 12.9m dwt in January 1988 to 29.1m dwt at end-October 1989. Almost all this tonnage was under the Norwegian International Shipregister, and the Norwegian fleet as a whole has now increased by 86% in the last 12 months and by 216% since January 1987.

4. Marked improvements were also shown by the Danish and German fleets. Both have turned round from decline to significant growth. Numbers in the three fleets show these changes in direction quite clearly:

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Norway	876	764	870	1363
Denmark	540	513	471	488
FR Germany	1300	1003	832	838.

(Source: Lloyd's Register; mid-year figures)

5. These fleets had in common major efforts by their governments to provide a favourable investment climate. It is clear that action to reduce their labour costs has also provided

a major boost, which long-standing investment incentives alone were unable to provide.

6. These developments took place against a background of marked, but not exceptional, improvements in many sectors of the market. Nevertheless, increases in freight rates to date have been insufficient alone to justify new investment. Government action to enable owners to prepare themselves for the necessary further improvements has been decisive in these three countries.

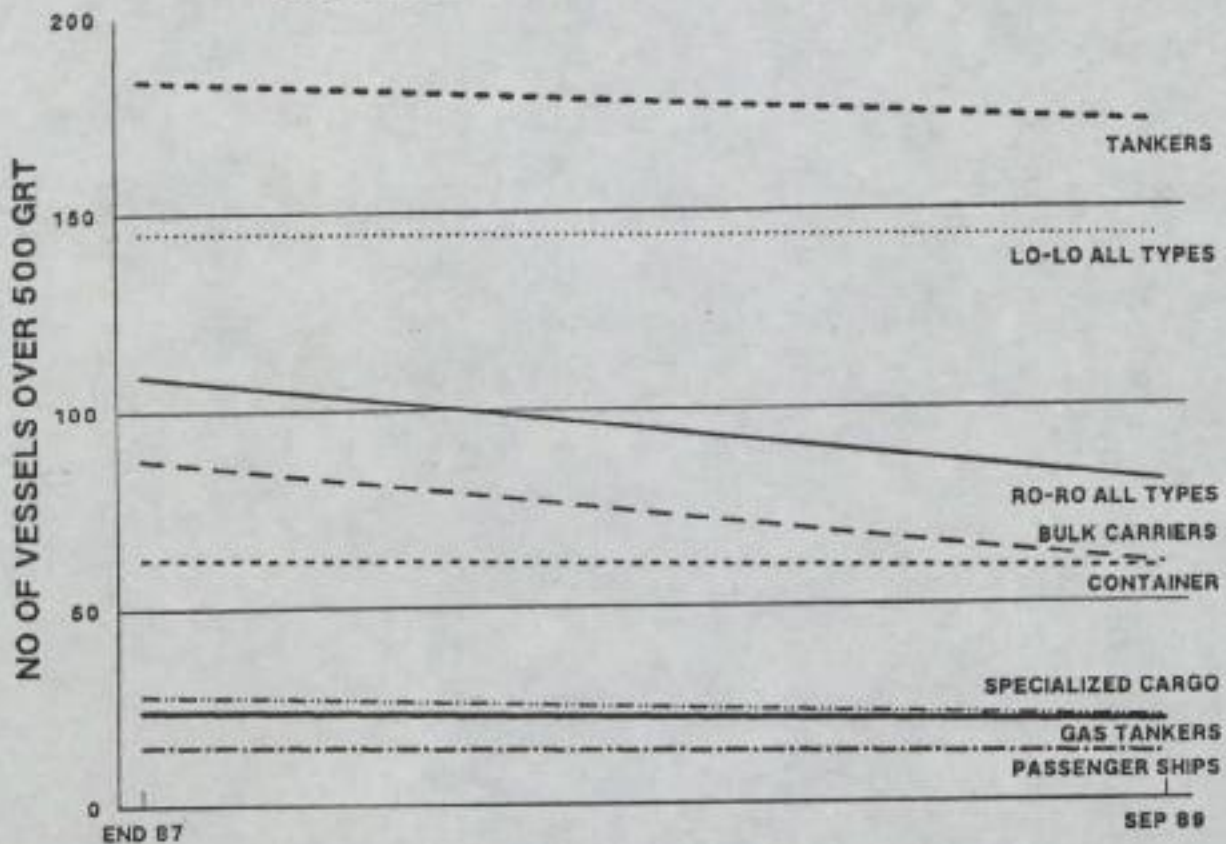
7. An analysis of the market position is contained in Annex A. To summarise, the world shipping scene overall looks better than it did five or even two years ago. In some respects, it is cautiously encouraging that most owners, banks and yards so far appear anxious not to return to the crazy days of give-away ship prices and highly leveraged financing. But for many owners, and particularly in the UK, the relief is only relative. Age and salt water continue to eat away at their assets and current freight rates are far below the levels at which investment in a newbuilding replacement would generate a proper return on the large sums involved. For example, a new 150,000 dwt tanker costing \$60m must earn at least \$40,000 per day to justify that investment - current rates are only \$18,000 per day. Only those that are favourably placed will be able to take advantage of the opportunities now opening up and of the further improvement in markets that will almost certainly occur in the next few years.

8. A new threat is on the horizon. Demand for new ships is set to increase dramatically over the next five years and beyond, as existing vessels just have to be replaced. Yet few of the shipyards closed down in the 1970s and 1980s will ever re-open and so prices can be expected to continue to rise. Those companies who replace their tonnage now will carry a far lower burden of capital costs than those who defer fleet renewal.

#### The UK Fleet

9. Unfortunately, British owners are not favourably placed and as a result the UK directly-owned merchant fleet has continued to decline. At end-September 1989 the fleet of trading vessels over 500 grt, stood at 582 ships of some 15.5m dwt, of which some 33% by tonnage was registered in UK mainland ports, 35% in British Dependencies and 19% in the Crown Dependencies.

## UK OWNED FLEET BREAKDOWN



SOURCE: Lloyds Register

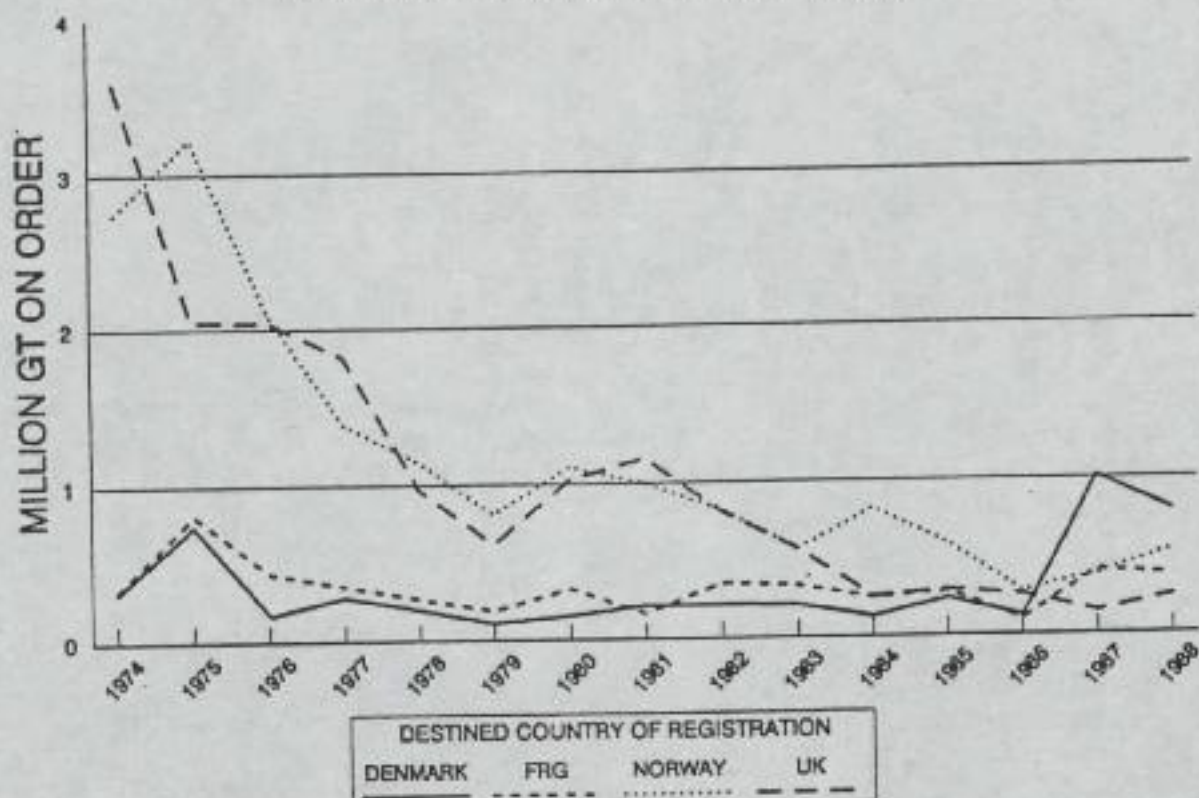
10. Nevertheless, the UK-controlled foreign-trading fleet produced gross foreign exchange earnings of £2.7bn in 1988, or £3.5bn taking account of import-saving effects. The net contribution of this fleet to the Balance of Payments was £521m, or £1.35bn including gross import savings. To these figures should be added the import-saving effect of the British fleet's involvement in UK coastal trade.

11. The UK industry includes well-respected household names whose quality of management and financial and operating strengths have been clearly demonstrated during the recent lean years. The larger companies are almost all part of larger industrial conglomerates, in which the shipping division has to prove its commercial value if it is to be retained. The companies engaged in the industry combine entrepreneurial flair, first-class management, experienced staff and technical expertise, covering every sector of the industry. They are totally capable of competing with other countries' shipping industries, provided the overall environment is similar.

12. The reason for the decline is that, despite the recent improvement in trading conditions, it is still difficult for many UK owners to justify investment in ships at a time when this is becoming increasingly urgent. The consequence is that, despite a welcome improvement since the bleak period in 1986-87 when 12

months passed without a single newbuilding order being placed by a UK owner for UK registration, the rate of renewal of the fleet remains far too low.

### ORDERBOOK AT END OF YEAR



SOURCE: Lloyd's Shipbuilding Returns

13. The UK-registered fleet in mid-1988 had an average age of 12.7 years against a normal economic life under West European conditions of between 15 and 20 years. In the container sector, the average age was 14.7 years. The UK age profile was significantly higher than that of most of our major competitors as can be seen from the following table, (the Norwegian figure is high owing to the very large investment in second-hand vessels over the previous two years):

<u>Country of Registry</u>	<u>Average Age of Fleet</u> <u>Years (mid-1988)</u>
Sweden	6.9
Belgium	8.2
Japan	8.2
FR Germany	8.3
Taiwan	8.9
Netherlands	9.1
Korea	9.7
Denmark	9.8
Panama	10.4
France	11.3
Norway	11.4
<b>World fleet</b>	<b>12.2</b>
<b>UK</b>	<b>12.7</b>
Liberia	12.8
Greece	13.4.

(Source: OECD Review "Maritime Transport 1988")

14. The latest available figures for the UK-owned fleet show that in the twelve months to mid-1989 the situation has deteriorated significantly, with the average age of the UK-registered fleet rising to 13.1 years and that of the whole UK directly-owned fleet, under all flags, being 12.9 years.

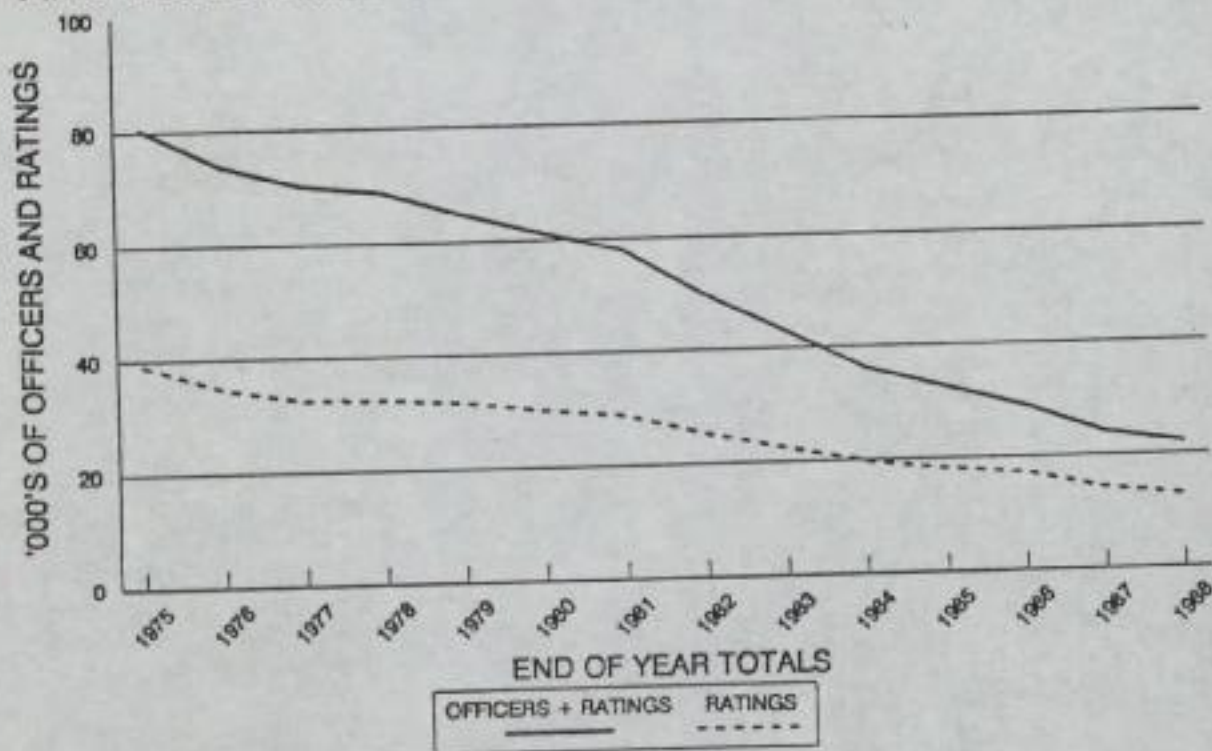
15. On the basis of the current order book, which stands at 12 vessels for UK registration, the renewal cycle of the UK-registered fleet is 29 years. In practice this means inevitable continuing contraction, as old ships reach the point where they cannot compete with new ones. After a certain age, the increasing cost of repairs and maintenance, and the higher fuel and crew costs of old ships outweigh the advantage of lower capital costs of written-down ships. In many sectors, notably containerships, new vessels also carry more than the old designs that they replace and hence offer economies of scale. And ship operators cannot provide the ultra-reliable and speedy service demanded by their customers in many trades, unless they periodically renew their assets to take advantage of technological developments.

16. In September 1988, a GCBS survey of its members indicated a likely further decline, under present conditions, of 20-25% over the 4 years. In the first 12 months of that period, this forecast has been more than borne out with the fleet declining by some 8%. Even to maintain the 1992 fleet at around the

13m dwt that this forecast indicated, nearly 900,000 dwt needs to be ordered each year, representing an annual investment of some £450m. This is nearly twice the level of orders on the books at mid-1989. A UK directly-owned fleet of around 6m dwt within only a few years is thus a real possibility - with the UK-registered fleet likely to be only a fraction of that.

17. An allied problem is the diminishing number of British seafarers. During the depths of the slump, British owners had to cut back their operations, flag out many remaining ships and suspend recruitment if they were to survive. As a result, British seafarers have diminished greatly in number. The numbers registered with the Merchant Navy Establishment have fallen from 33,350 officers and 31,600 ratings in 1979 to 9,300 officers and 12,850 ratings by September 1989. (Perhaps a further 5,000 officers and ratings work on non-MNE ships.) The fall is equivalent to the working population of a major town - Southampton, for example.

### NUMBER OF COMPANY SERVICE CONTRACT AND REGISTERED SEAFARERS ON THE MNE'S REGISTER



SOURCE: GCBS

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18. Even in today's improved markets, operating costs are crucially important, and crew costs are the main variable. For many operators the yard-stick is the cost of a crew drawn from the highly competent officers and ratings available from the low cost countries of the Far East.

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19. If UK owners flag out, these seafarers become available to them. But in the longer term this is the route to national maritime insignificance. Not only do British companies prefer on commercial and operational grounds to have British seafarers managing their assets, they need to bring ashore trained ex-officers to fill many management posts. Many allied industries - ports, insurance, loss adjusting, classification societies and others - likewise rely on a continuing supply of trained officers. It is far better for the wages of seafarers serving on UK directly-owned ships to flow into the UK economy than for them to drain away elsewhere. And of course in countless wars, from the days of King Alfred to those of General Galtieri, Britain has relied heavily on the British merchant seaman, often at a heavy cost in casualties.

#### WHAT WENT WRONG?

20. Why is the British industry afflicted with these two problems - shortage of investment funds and a growing shortage of trained seafarers?

21. The answer is that the British Government is almost alone in leaving shipping to the unfettered play of market forces. Other governments have not, thereby making our position all the worse. It is a fact that shipping is far more exposed to international competition than almost any other industry. The rate of return is affected by what the most advantaged operator can accept. Although over the 15- to 20-year life of a ship, the income flows and foreign-exchange earnings can be good, the British capital market is singularly ill-suited to take a long-term view. Most shareholders are pension funds, insurance companies and other institutions, investing other people's savings in a highly competitive environment, where the yardstick is this year's return on capital. An investment in shipping is excellent in the long term for British companies and for the nation. Inherent "short-termism" is now obscuring a long-term view. As a result, without Government assistance to help us enter the race, British shipping may miss the opportunities that are now opening up.

22. The British Government's view is not shared by the European Commission. A similar basic economic situation faces all European shipowners. This is recognised by the Commission, which in August 1989 published a comprehensive and useful analysis of the present shipping climate in its consultative document on the second stage of a Community shipping policy. Among other things, the Commission highlighted that:



- while the problems facing shipping have eased in the last year, the changes in economic conditions do not eliminate the structural comparative disadvantages in regard to crew costs and tax treatment from which Community shipping suffers as against many third-country fleets;
- the loss of a Community fleet would have an adverse influence on the quality and cost of transport to and from the Community and thus damage the Community's trading position;
- there would also be significant damage to Community interests in terms of employment, balance of payments and defence.

The Commission concluded that urgent action needs to be taken by Members States if EC shipping is to serve the Community effectively. It is unfortunate that its proposals do not match its analysis, but it has only a limited role, particularly in respect of tax incentives.

23. Indeed, it is strange that the British Government should have such pure policies in respect of shipping (apart from some minor - but appreciated - aid for training and crew relief costs). It certainly does not practise the same virtues in respect of other industries against which British shipowners must compete for funds. The Enterprise Initiative covers consultancy costs for many aspects of commercial operations. The Eureka Initiative gives incentives to promote British technological penetration of European markets. The Regional Initiative scheme gives assistance to industry in many parts of the country. None of these are directed to shipping. Nissan, for example, has received £125m over five years since 1984 to set up operation in the UK and this assistance is scheduled to continue in the future if Nissan expands its investment here. Airbus is still a heavily subsidised loss-maker. In the transport sector, subsidies are used to support rail freight and even the scheduled airline industry is protected by a closely knit web of inter-governmental agreements.

24. Within the context of the European Community, the Government also accepts the Common External Tariff, which provides all land-based manufacturing industries with a considerable degree of protection. In addition, the Common Agricultural Policy is notorious for the high level of subsidy it provides to the farming community. Other investors receive assistance through European Community regional aid and European Coal and Steel Community conversion loans.

25. All these measures increase the attractiveness of investment in other industries. They all indicate a realistic acceptance by the Government that pure "market forces" are not enough if the other players have rigged the market. But, in shipping, the Government simply argues that other countries should wind down their aid. While this is a laudable objective, it is quite unrealistic as a response to our immediate problem.

26. British shipping should not be taken for granted. Two-thirds or more of UK directly-owned ships are owned by companies or groups which are already diversified into other industries. They know that other investments are more immediately profitable, they have the expertise to exploit them and they, like all companies, have a duty to their share-holders to obtain the best possible results for them. These companies could get out of shipping altogether and still survive as profitable - probably more profitable - entities.

27. Some UK companies - the oil companies are good examples - maintain fleets to provide a service for their main activity. They have so far decided that the balance of advantage lies in providing at least part of that service with owned ships. They could well decide to provide it entirely with chartered-in ships, and allow a foreign shipowner bear the burden of achieving profitable ship operations.

28. There is no inherent reason why other shipping services customarily provided with owned tonnage cannot use chartered, foreign-owned ships. Already some ferry and some container services used chartered-in ships.

29. The disadvantage of moving to chartered-in shipping is the erosion of both company and national expertise in ship-operation. In time, only the chartering option will be available and the company (and the nation) will have to pay the price that the open market demands. Chartering is also potentially a very expensive option, with costs subject to wild variations - for example, charter rates for container ships have doubled since 1986.

#### THE SANDS OF TIME

30. The blunt facts are that:

- this island nation has witnessed a drop in shipping investment that leaves the UK-controlled fleet (and UK-based seafaring labour force) heading towards the point when its massive reservoirs of skill and expertise, both ashore and at sea, will have been largely dispersed. The road to recovery will then be terribly long, steep and stony;

- the commercial opportunities in the present markets are better than for many years. A short look into the future is sufficient to convince GCBS that they will get significantly better still, as old ships have to be scrapped. If these opportunities can be seized, they should bring significant rewards both to the companies in question and to the nation;
- unless UK owners are put into a position to act quickly, the opportunities will be gone. The further dramatic increase in ship prices forecast for the 1990s represents a major threat to the viability of those owners who cannot reinvest now.

31. The opportunities are there for the taking. But they will have to be supported by positive and urgent action by the Government to enable British shipping companies to take a longer view than is now possible and thus to match their competitors.

#### HOW THE COMPETITION HAS RESPONDED

32. As indicated in the GCBS briefing paper "A Level Playing Field for Merchant Shipping?", published in May 1989, most of our European competitors (both inside and outside the Community) have in fact taken recent action to respond to the continuing decline of their national fleets. Some have long had policies of great value to their shipowners, but many have focused in recent years on improving the investment and operating climate in which their shipping companies exist through positive policies in regard to taxation and fiscal treatment. Others have concentrated on reducing manning costs, either by providing incentives to continue the employment of their nationals, or by permitting the employment of non-nationals at lower rates. Many have applied a combination of the two. Some countries have used the mechanism of a "second" or "international" register to achieve this objective; others have incorporated incentives directly into their national maritime policies. Since the GCBS paper was published, several further support packages have been introduced by Community Governments.

33. Government action in the three successful cases mentioned in Paragraphs 3-5 above can be summarised:

- Norway. Since the establishment of the International Register (NIS) in 1987, which permitted substantial reductions in crew costs, the tonnage under the Norwegian flag has trebled (as detailed in paragraph 3). The fleet has been substantially boosted by a long-term policy of tax incentives to invest in K/S limited-partnership schemes, designed to draw in funds from highly-taxed personal incomes. Norwegian K/S companies alone have attracted an influx in the last 2 years of US \$2bn (one per cent of the cost of replacing the entire world fleet!), which demonstrates that with the right encouragement and with the

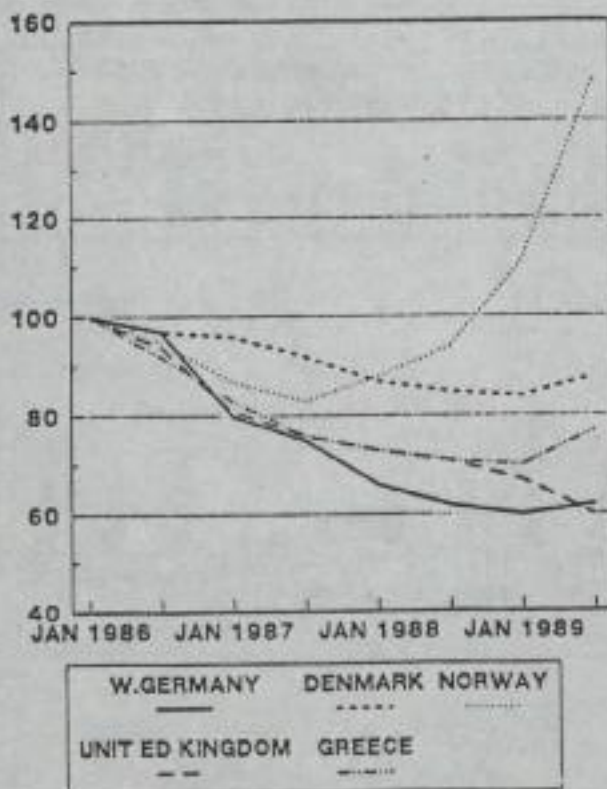
prospect of a reasonable return, substantial investment is available;

- Federal Republic of Germany. Since the establishment of the supplementary register in May 1989, the decline (28% since January 1987) has been reversed. In addition, long-standing tax incentives in Germany such as special depreciation and reinvestment incentives have produced a national fleet with an average age of only 8.3 years, with 70% less than 10 years old;
- Denmark. Since the establishment of the International Register in September 1988, 70% of the deep-sea fleet has now joined it. The fleet has expanded because of long-standing taxation and manning incentives such as limited partnerships, accelerated depreciation and tax concessions for seafarers. Its average age is under 10 years and there are 56 new ships on the order book.

34. It is worth noting that the largest European shipping industry, that of Greece, has long benefited from extremely low levels of corporate taxation, based on tonnage rather than profits. This gives Greek owners a particular advantage at times of improving shipping markets. Seafarers are also subject to very low levels of income tax.

35. The following diagram shows the fleet development in the three countries in which an international or second register has been recently established, as well as in Greece and, for comparison, the UK.

REGISTERED FLEETS BY NUMBER (100 grt & over)  
INDEXED TO JANUARY 1986



SOURCE: Lloyds Register

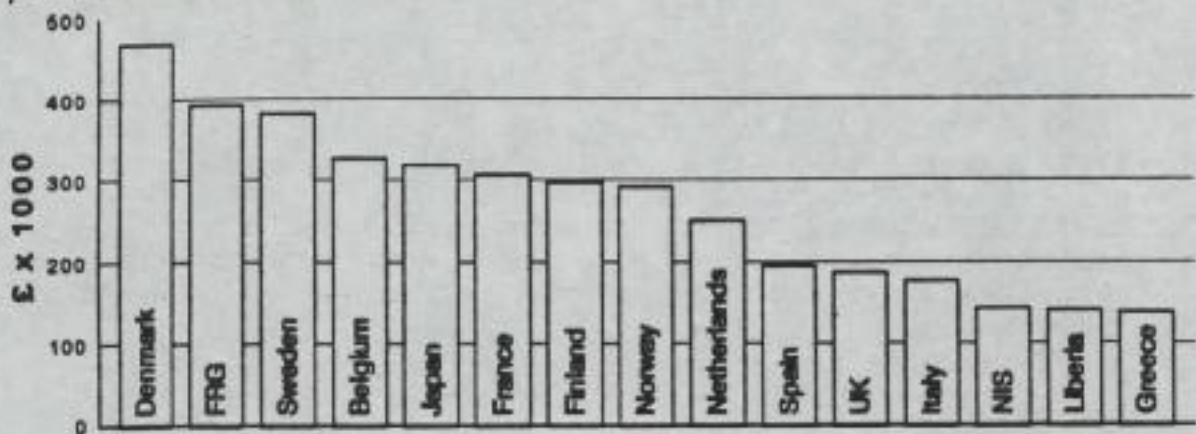
36. It must be remembered that the competition facing UK carriers is not only from within Europe but from the very competent owners from the Far East. Owners in Japan, Korea and Taiwan all receive considerable protection and support from their Government. In all, the GCBS Briefing Paper identifies between 70 and 80 different maritime administrations, amounting to nearly 80% of world tonnage which give major aid in one way or another to ships operating on their registers. In Europe alone, Belgium, Finland, France, Ireland, Netherlands, Portugal, Spain and Sweden have either recently introduced new measures or have them under active consideration. Market forces are certainly not dominant on the supply side of shipping. UK shipping companies are facing an unequal struggle in international trades.

37. Research undertaken by Professor Goss of the Department of Maritime Studies of the University of Wales, sponsored by GCBS, has investigated the overall value of this assistance. The draft report shows that, in the field of subsidies and corporate taxation alone, our major European competitors operate in a business climate considerably more conducive to investment in and the profitable operation of shipping.

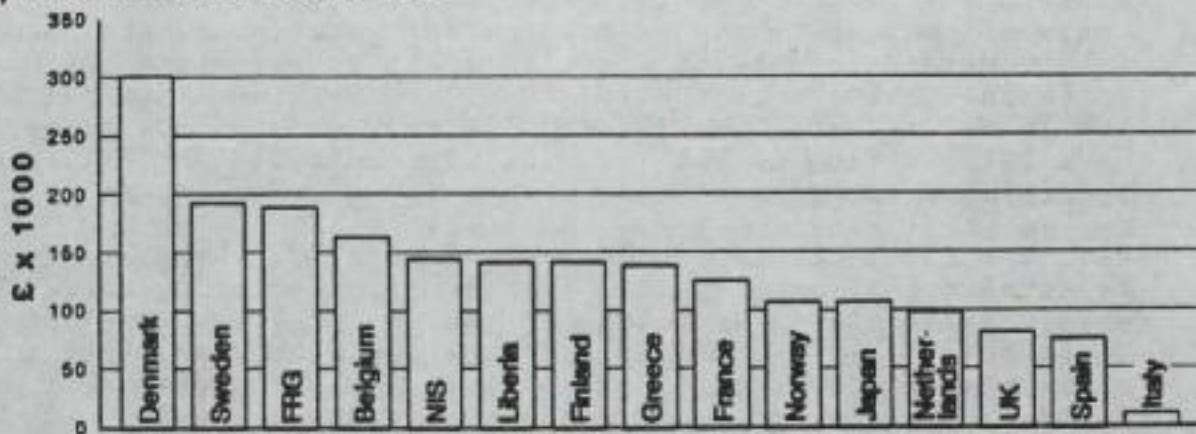
38. The value of various countries' fiscal regimes depends to some extent on the level of profitability of the industry. In times of high prosperity (15% pre-tax rate of return), the UK regime is not too bad - 8th out of the 15 regimes studied, but still inferior to those of Belgium, Denmark and Greece within the EC, and Finland, Sweden, Norway-NIS and Liberia outside. But in the far more realistic scenarios of low and medium profitability (5% and 10% rate of return respectively), characteristic of the shipping industry in recent decades, we are far worse off - 11th and 13th out of 15 respectively.

## FISCAL INCENTIVE TO INVEST IN NEW SHIPS ASSUMED DISCOUNT RATE OF 8%, INFLATION 5%

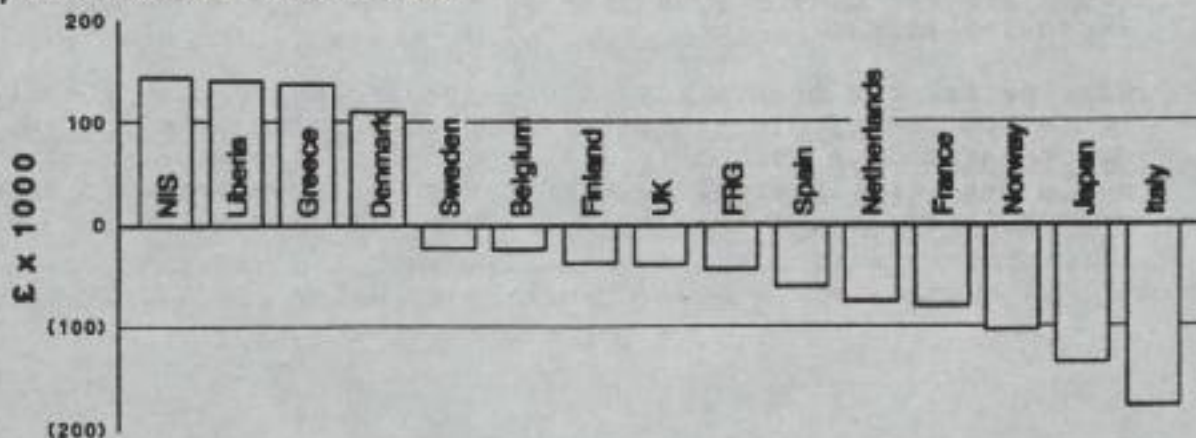
a) Pretax Rate of Return 5%



a) Pretax Rate of Return 10%



c) Pretax Rate of Return 15%



SOURCE: Prof R O Goss

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39. More important than the UK's position in the league table is the effect in cash terms of the different fiscal regimes on an investment in shipping. Taking the situation of medium profitability, the Dutch owner is 21% better off, the French 54%, Greek 70%, Belgian 99%, German 130% and Danish shipowner 268% better off under their tax systems than their UK counterpart. All this is external to the influence of the particular shipowner and has nothing to do with the relative efficiency of the fleets concerned.

40. What British shipping certainly does not need or seek is "cradle to grave" subsidies. What is needed, however, is a relatively small amount of pump-priming, in order to allow UK owners to reinvest in new ships and in trained British seafarers to meet the opportunities of the next decade. Relatively small-scale, low-cost measures would make an enormous difference to the ability of UK shipping to meet the nation's needs. Paragraphs 41-53 below describe what these measures could be. Immediate action would give a breathing space while the British government persuades other shipping nations to dismantle their systems of support.

#### THE WAY FORWARD

41. GCBS acknowledges, without apology, that its message is not a new one. The hard fact is that there are two areas - capital costs and manning costs - in which early action remains necessary if the decline of the UK fleet is to be reversed and the potential benefits to the nation of the British shipping industry are to be realised. What is new is that some of our competitors have taken action on both fronts, with splendid and entirely predictable results.

42. The first relates to AIDS TO INVESTMENT. The Government has rejected significant special treatment for shipping since 1984, when the fiscal regime which had led to 16m dwt of new ships being built over the previous decade was withdrawn. But this is still the single, most important area in which Government action could have an impact. There are two principal ways in which the investment regime for companies could be imposed - accelerating depreciation and roll-over relief - and useful minor assistance could also be given by altering the rules of the Business Expansion Scheme.

43. By far the most efficient way of improving the internal rate of return on ship investment is to provide for accelerated depreciation. A 100% ship allowance as a First Year Allowance would make the internal rate of return on investment in a new or good quality second-hand ship far more attractive.

44. While in any investment decision other factors (for example, risk assessment) are taken into account, the examples in Annex B, summarised below, illustrate clearly the improved viability of investment, and the improvement in the internal rate of return, which would result from a 100% allowance for two different types of ship. In most cases, the effect would be to increase the present rate of return to the shipping companies concerned by around 100%.

RATE OF RETURN			
OECD Finance		100% Equity Finance	
25% Writing Down Allowance (present)	100% Ship Allowance (proposed)	25% Writing Down Allowance (present)	100% Ship Allowance (proposed)
Short Sea Bulker	14%	34%	9%
Container Ship	8%	15%	4%
			12%
			9%

45. Such a measure introduced for a 5-year period would prime the pump for a rapid investment programme to restore and re-invigorate the UK merchant fleet.

46. Improved terms for Roll-over Relief for Corporation Tax would be of particular value to operators in the bulk sectors. Many of these rely on trading their assets, as well as trading with them, to maintain overall profitability. Their objective must be to buy in a depressed market and sell when prices are high. Secondhand ship values fluctuate markedly, as recent months have shown. It is in this way that many Greek and Norwegian entrepreneurs have built up their fleets.

47. Yet such activity is incompatible with current rules for "roll-over" relief of balancing charges, which require a new purchase to be made in the same accounting year as the old vessel is sold. This allows no real scope to time purchases to a falling market. So a British bulk ship operator is at once 35% worse off than his Greek counterpart (who pays no corporation tax at all) or his Norwegian colleague who - like owners in Denmark,



Germany, Netherlands, Spain, Japan and USA - can place the proceeds of his sale in a tax-free reserve.

48. Over the last two years, a number of shipping ventures have been able to make modest use of the Business Expansion Scheme. If the terms were more adapted to the market, it could produce considerable investment. Unfortunately, the opening-up of the BES to investment in assured tenancies of domestic properties has attracted most investors to these virtually risk-free ventures. Property Enterprise Trusts in Enterprise Zones - also attracting 100% personal income tax relief for investment in commercial properties - have absorbed even more private investment funds.

49. Yet paradoxically, a major limitation in the value of BES to shipping lies in the restrictions imposed on BES ship schemes, particularly the requirement that the vessel shall not be chartered out for more than twelve months at a time. This limit was introduced to import a significant element of risk-taking into BES shipping ventures, but has the effect of severely curtailing the ability of ship schemes to raise supplementary loan finance for the vessels they wish to buy. A lengthening of the permitted period of charter would greatly ease these financing problems by providing greater security of earnings and would go some way to offset the effects of the cap on BES funds. In the industry's view, the right period of permitted charter would be five years, but any increase would be of value.

50. The second area concerns MANNING COSTS which must be reduced if British seafarers are to be employed. There is a major opportunity here, for many European countries' wage and social security costs are so high that they cannot hope to bridge the gap with world costs and continue employing their nationals. Hence the NIS approach is to permit the use of non-Norwegian nationals almost without restriction. But UK costs are lower and government action could lead to greatly improved employment opportunities for UK seafarers.

51. The action needed is to eliminate National Insurance and Income Tax liabilities in regard to seagoing employment, in order to align the overall cost of operating UK-manned ships more closely with that of lower-cost competitors in world shipping markets, without reducing real wages to third world levels. As mentioned in paragraph 32 above, such measures have been adopted by a number of European governments.

52. It is vitally important that a mechanism be incorporated which ensures that the same net pay is received by the national seafarers, that they remain fully eligible for social security benefits, state pensions etc, but that the full advantage arising from the reduced income tax liability feeds through to the shipping company itself. This has been achieved in different ways in different countries. For example, in Sweden, the law

provides that the income tax payments of seafarers must be refunded to the employer; in addition, there are no employers' National Insurance contributions. In Denmark, income tax and social security payments were abolished in regard to seafarers at a time when the national collective agreements were to be renegotiated and a scheme now operates whereby special arrangements are adopted upon the acceptance of given net pay levels of remuneration.

53. UK shipping companies need comparable treatment if they are to compete on equal terms. Although the current income tax regime provides a welcome incentive for some seafarers serving on deep-sea ships to continue at sea, its impact is too uncertain to lead to lower costs overall for owners. The measures proposed would cut some 18% of the industry's wage bill.

#### THE COST TO GOVERNMENT

54. The cost of the investment incentive elements of this support package is difficult to quantify with close accuracy. It depends critically on the degree of take-up, timing, and the interface between the two types of measures. Both schemes would affect the future profile of revenue cash-flows rather than their quantum, with the costs of initial relief being balanced by greater corporation tax in subsequent years, including tax on the operating profits from the new tonnage.

55. Based on an annual investment in tonnage of £1 billion over the five-year period (ie 40 ships averaging £25m apiece) the average annual cost of 100% First Year Allowance to the Exchequer in deferred corporation tax compared with the present system of 25% reducing balance depreciation would be about £150m. The first year would have a high figure of £260m, which declines rapidly to only £75m in year 5. It is our belief that these amounts would be largely (if not entirely) offset by corporation tax due on the additional profits generated over the years by the operation of the new assets.

56. For Roll-over Relief, current annual levels of disposals are about £300m of fully-written-down vessels. It is assumed that one half of these are in any case covered by present arrangements for roll-over relief within the same accounting year. The deferred tax on balancing charges on the remaining £150m of disposals amounts therefore to around £50m p.a. which, again, would be recovered later on.

57. The proposed changes to arrangements for seafarers' income tax and national insurance contributions are also difficult to estimate, but it is thought that they would have an annual cost to Government of under £60m.

### VALUE TO THE NATION

58. Why should shipping be given special treatment? Just because the foreigners throw their money away, why should we? Isn't it just another activity - like textiles and making hi-fis and motorcycles - where we should give up trying to compete with the Far East? Should we not let those governments who are prepared to subsidise world shipping do so to our benefit as users of shipping services?

59. Firstly, as we have mentioned in paragraphs 23 - 25 above, the treatment would not be that special. What is special at present is that shipping is more exposed and less assisted than most other industries.

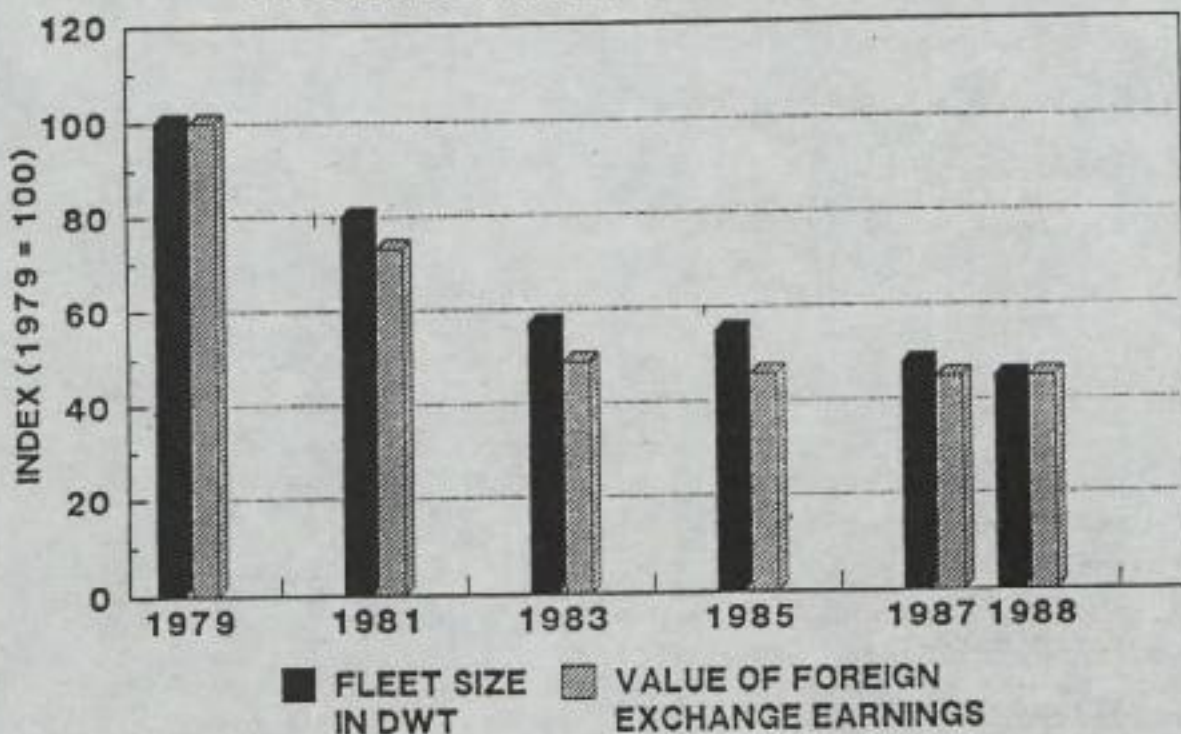
60. Secondly, there are real and concrete advantages to the nation in restoring and maintaining a strong merchant fleet. Shipping is a vital service in time of both peace and war. It makes a major contribution to our economy. It is not just a fashion industry that we can safely leave to others to provide. That is certainly the view of the other great island trading nation, Japan! Emphatically, it is not a "smoke stack" industry, where the UK cannot compete because our management is too arthritic. Given the right economic climate, UK shipping can again be a world leader. The advantages are set out below.

### Balance of Payments

61. There are few, if any, more efficient methods of earning foreign currency than by shipping. Other industries contribute to the balance of payments through a series of substitutions with all the inefficiencies that that implies. Shipping is more direct and involves far less leakage.

62. Although the Department of Transport has recalculated the basic statistics, it cannot be denied that British shipping companies make a major contribution to the balance of payments - £3.5bn gross and £1.35bn net (including foreign exchange saved when British imports are carried in British ships) in 1988. They are the third major invisibles contributor (after tourism and insurance but before civil aviation, banking and pension funds) and could therefore make a much bigger impact relatively quickly given a healthy investment environment. A detailed analysis of the overall contribution of shipping was issued by the GCBS in May 1989 under the title "British Shipping and the Balance of Payments". Past evidence of the ratio of fleet size to foreign currency earnings illustrates a close correlation (see table).

### SIZE OF THE UK OWNED FLEET AND ITS EARNINGS FROM ABROAD AT 1988 PRICES



SOURCE: CSO Pink Book & Lloyds Register

63. A UK fleet 50% larger than today (approximately equal to that of 1982) should benefit the balance of payments by a further £1.8bn or so in gross terms. Such a growth is by no means unreasonable - the Norwegian fleet grew by 86% in the last 12 months as a result of a combination of tax incentives and the virtual elimination of national crewing requirements. In contrast, the predicted 1992 fleet of 13m dwt without government assistance, would lead to a reduction in the current contribution of about £1bn.

64. There are those who claim that there are long-established and deeply-entrenched trends for even modest growth in the UK economy to lead to increases in imports outstripping increases in exports. Even if one does not fully accept that view, there is very little ground for optimism that the balance of our trade in goods will improve. Against the likely background of a £20bn deficit in the country's balance of payments in 1989, modest and short-term help to the shipping industry must be a good investment by the nation.

### Economic Value of the Industry

65. The commercial and social contribution made by the shipping industry to the nation was summarised at the beginning of this paper. The "shipping industry" in fact comprises several very different, but essential industries: deep-sea liner (largely containerised), bulk trades (both liquid and dry; both deep-sea and short-sea), ferry, cruise and offshore, all of which give direct and stable support to the movement of trade and British citizens. Ninety-five per cent of our trade, both with Europe and the rest of the world, and two-thirds of travellers across the English Channel still move by sea, despite the higher profile and expansion of the airline industry.

66. The industry provides employment for some 27,000 British nationals at sea and a further 13,000 shore-based jobs. Rationalisation and technological developments - on top of the decline in fleet-size - have reduced the numbers over the years, but seafarers remain an important and skilled labour force, which is a genuine national resource. The scope for greater employment of British nationals is dependent on fleet-size and the level of manning costs which can be achieved compared to the competitive world market.

### Allied Industries

67. The City of London still derives considerable revenue and strength from its position as the world capital for shipping and its multitude of maritime-related activities. It is the centre for marine arbitration, insurance, loss-adjusting, P & I clubs, shipbroking, chartering, classification, and other similar businesses. It provides a home base for the International Maritime Organisation and several other international shipping and seafaring associations. In short, it remains the traditional hub of the maritime world and gains considerable income from such activities.

68. It is notable that the Norwegians and the Greeks have both recognised the value of these ancillary industries and have begun respectively to try to develop and market the attractions of Oslo and Piraeus on the world scene as alternative maritime centres. They have explicitly recognised the importance of developing their own shipping industries in this connection and this provided one of the prime motivations for the establishment, for example, of the Norwegian International Ship Register (since NIS vessels have to be managed from Norway). With the advances in telecommunications of recent years and closer political and economic integration in Europe, other countries acknowledge the positive impact such activities can make on their balance of payments and see an opportunity to take London's position. The importance of this was recognised by the Government earlier this year when it abandoned plans to tax worldwide earnings of foreign

residents (which would have driven much of London's Greek shipping community abroad).

69. However, to support many of these activities, an experienced and skilled workforce with a practical maritime background is required. Such a workforce cannot be built up nor replaced at short notice. Maritime training has a long lead-time; training periods for officers vary from 4 to 10 years and further experience at sea may also be required. Without a merchant fleet there can be no recruitment, no training, no sea-experience.

70. Long-term vision is therefore critical if the influence of the City in maritime affairs is not to be diminished. If it is not to lose these lucrative sources of income, action must be taken soon to ensure the continuing flow of experienced seafaring personnel.

### Defence

71. Finally, but not least, there is the defence requirement that the Merchant Navy fulfils. The advantages of a strong merchant fleet in times of tension are well understood. It is only the UK directly-owned fleet that can be relied upon in such times to heed the nation's or NATO's call. The UK's contribution to NATO's conventional deterrent rests entirely on the ability to supply a large number of cargo ships to bring reinforcements and supplies across the Atlantic. British shipping could now have real difficulties in meeting its tasks of supporting and augmenting the Royal Navy; reinforcing Europe and Norway; bringing military supplies from North America; and bringing also essential raw materials, manufactured goods and food to keep industry and the population alive during a conflict of any duration.

72. GCBS believes that there is now a shortfall of 300-400 ocean-going, trading ships between the fleet currently available and what the UK needs to cover both its own requirements and its contribution to NATO. The Government has already acknowledged that there is a parallel cause for concern about the availability of crews who can be relied on to man ships in a crisis. This case has been developed in detail in a GCBS briefing paper entitled "British Shipping and Defence", published in September 1989.

73. Paradoxically, the new mood in Eastern Europe, forces reductions and American cutbacks in Europe shift the emphasis more than ever to trans-Atlantic reinforcement and resupply, and so to merchant shipping.

74. Shipping companies have to be motivated by their commercial interest if they are to retain the support of their shareholders and survive. But there is a market convergence between the commercial interest and the national interest - both are best

served by a climate in which British merchant shipping can flourish.

### CONCLUSION

75. The industry and the nation need a new era of effective co-operation between Government and the British shipping industry - co-operation which will enable the industry to provide the maximum contribution to the national interest. The potential is very clear at a time when the world's shipping markets have turned the corner and appear to be entering a new era of positive development. At the same time the major threat of heavily increased ship prices is looming and early action is needed. There is only a small window of opportunity.

76. This has been recognised by other governments, particularly in Europe, which have taken measures to ensure that their fleets benefit from the resurgence. The need has also been recognised by the European Commission. The value of such action has been clearly shown by Norway, Denmark and Germany. Only the British Government is out of step. Although there are long-term merits in seeking to persuade other countries to remove their systems of support, it is unrealistic to expect them to do this in the short term - non-European governments have to curb their measures too. As a result, this nation runs the risk of missing out on that opportunity and on the consequent financial returns and wider benefits - to the Balance of Payments, our other economic and City interests, and our defence capabilities - if it continues to sit on its hands, while the sands of time run out.

77. The General Council of British Shipping therefore calls on the Government to give British shipping industry the positive policy support which is available to shipowners elsewhere. The availability for five years of a 100% First Year Allowance, minor improvements to the rules for Roll-over Relief for balancing charges and to the Business Expansion Scheme, and the elimination of National Insurance and seafarers' income tax liabilities would give British shipping companies and British seamen the opportunity to reverse the recent decline and make their full contribution to the country's economy and national interest, in peace and in war.

ANNEX A

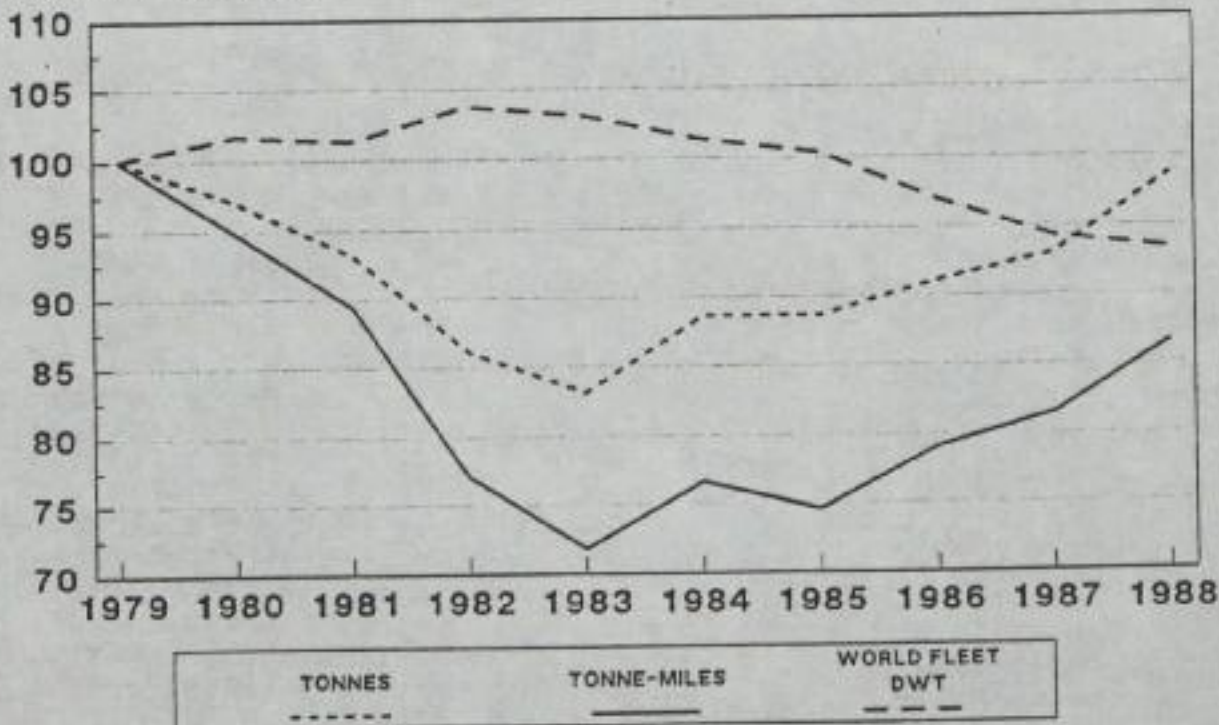
THE SHIPPING MARKET IN 1988/89

1. The overall outlook in shipping is better in 1989 than it has been for many years. There has been a significant up-turn in many, but not all, parts of the shipping market. However, it is being welcomed with caution because the financial improvement was from a very low base position, because similar signs of resurgence have often proved illusory and short-lived in the past, and also because unrestrained optimism could lead to excessive newbuilding orders, thus destroying the improvement.

2. 1988 was year of growth for world trade, and shipping benefited. In tonnage terms, seaborne trade increased by 6%, almost to the record levels of 1979. It has continued to grow, albeit more slowly, in 1989 and the record may well be surpassed this year. In tonne-mile terms, although there was real growth, volumes still remained well below the 1979 record levels, owing to changes in the pattern of trade over recent years.

WORLD SEABORNE TRADE

INDEXED TO 1979



SOURCE: Lloyds Register & OECD review "Maritime Transport 1988"

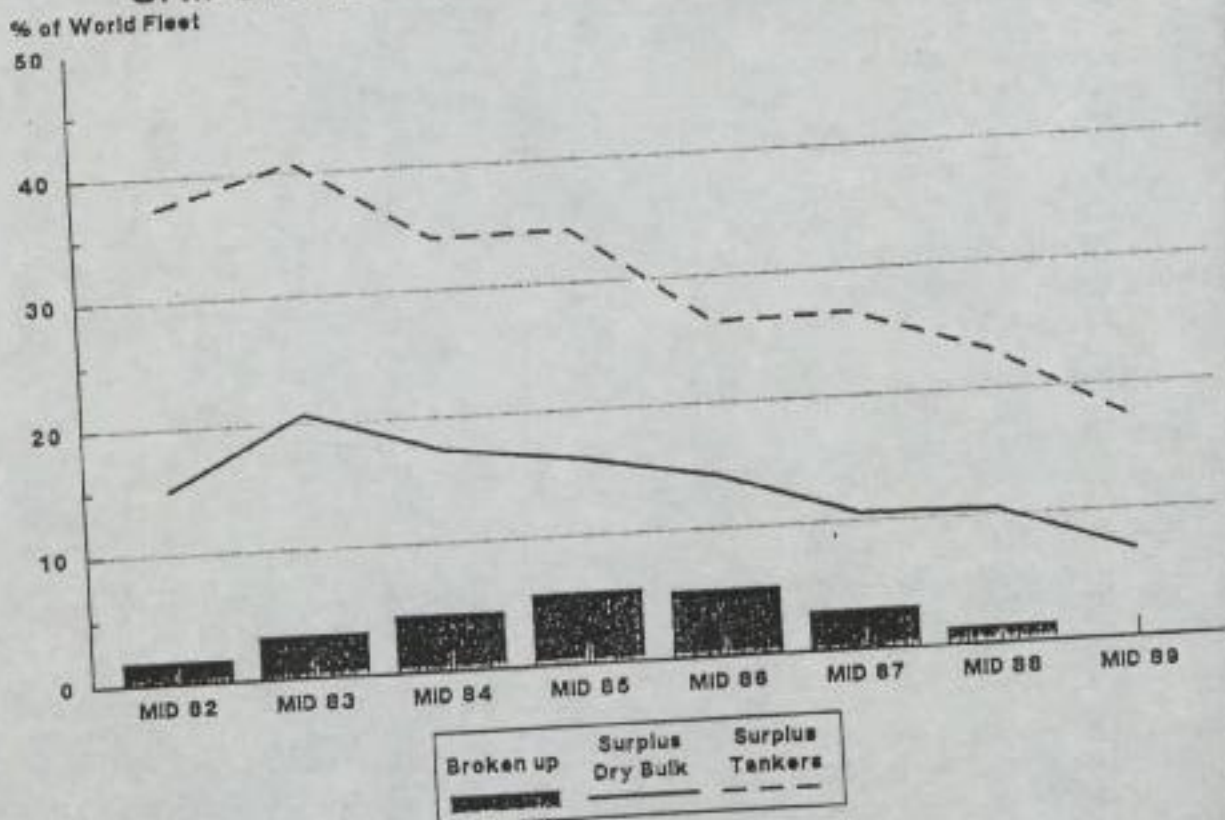
3. Different sectors of the industry were affected in different ways, with tanker operators enjoying almost continuous improvement during 1988, whereas dry bulk volumes have largely flattened out after a substantial surge in the first part of 1988.

4. This increase in trade, coupled with the lowest level of newbuilding deliveries for 25 years, led to a much closer balance



between supply and demand for shipping services, with consequent improvements in freight rates. In 1988/9, virtually all laid-up dry bulk carriers and most tankers returned to normal trading, and there was a 60% decrease over 1987 levels in the tonnage sent for scrap.

### SHIPS LAID UP/IDLE AND SHIPS BROKEN UP



SOURCE: Lloyds Shipping Economist & Lloyds Register

5. In addition, in 1988, lower fuel prices together with the improvement in the markets removed any incentive to save fuel costs through slow steaming. Most of that hidden surplus capacity was therefore also removed.
6. The improvement in freight rates has been generally firm a constant in the deep-sea dry cargo time-charter and trip-charter markets. The short-sea dry bulk and the tanker markets are more volatile and differ from trade to trade. However, here too, the underlying trend is one of improvement, although this is not necessarily steady. For example tankers have suffered a downturn after a sharp rise at the end of 1988.
7. The position has been less satisfactory in the deep-sea liner sector, where there is still over-capacity in the container trades, although less dramatic than the chronic surpluses that have afflicted the bulk trades for so long. This oversupply has kept freight rates under pressure and in some cases has forced drop in the tariff levels. However, the negative effects have to some extent been off-set by the increase in trade volumes. Liner shipping companies, which have a stronger commitment to a particular trade than in most dry bulk markets, have to take a longer view when considering their investment decisions. Many

container fleets, in Northern Europe in particular, are renewing their fleets. Indeed, during this year alone, virtually all foreign deep-sea containership operators have taken delivery of new tonnage or placed orders (83 ships totalling 3.5m dwt in orders alone). UK operators have been almost absent from the picture with only three newbuildings.

8. Assuming a reasonable level of scrappings over the next few years, the liner companies with new tonnage will be able to benefit from the 30% increase in efficiency in terms of costs per container carried provided by the latest ships. Those without will be severely handicapped and less able to provide the level of service that shippers demand.

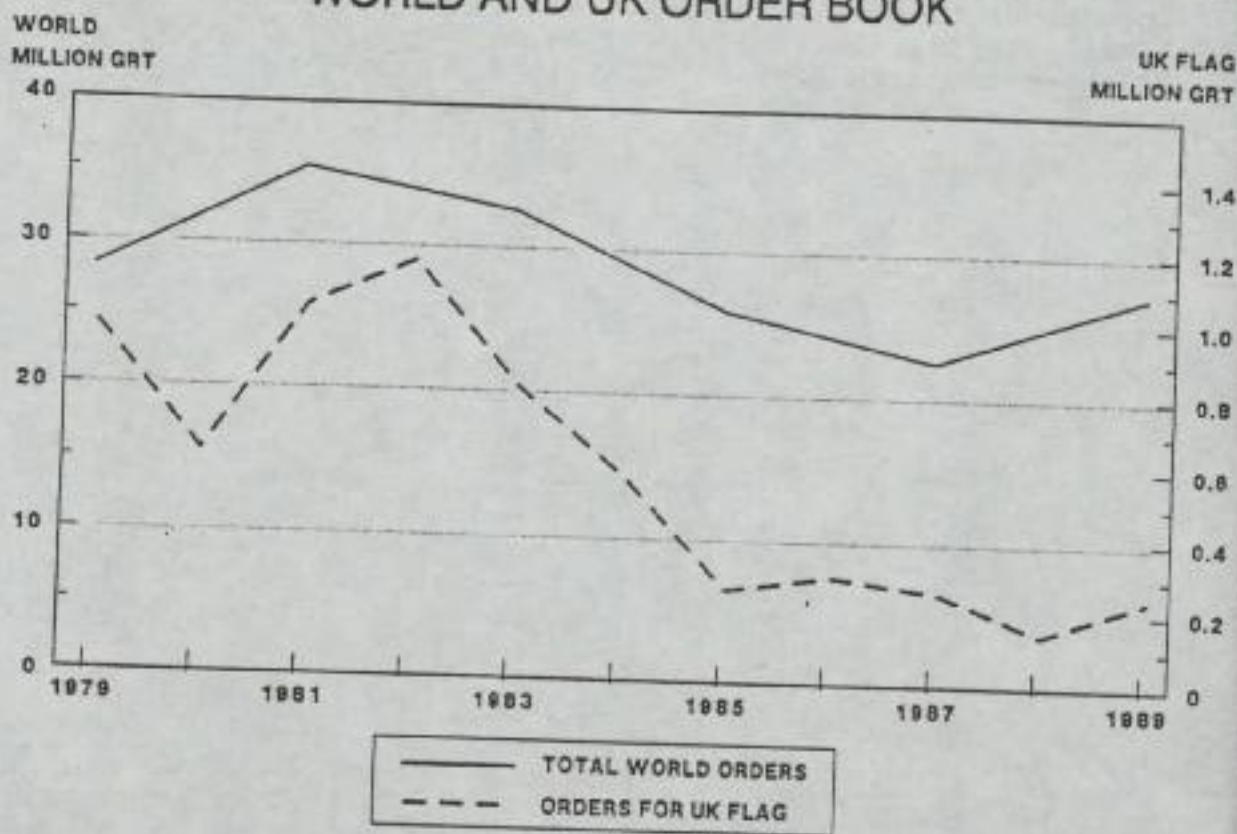
9. Cruise shipping has shown continued expansion with new tonnage continuing to come into all sectors, whether 4-day "bulk" cruises out of Miami, the 5-star Caribbean market or small Adventure Cruise operations. Despite forecasts of continued growth in cruise demand there are fears that some sectors will become over-tonnaged, especially now that Japanese operators are dipping their toes in the market.

10. The ferry business within Europe has continued to develop positively and demand has been buoyant in terms of both passengers and vehicles transported. Competition is still intense on most routes and operations have generally been "trading up" into larger ships with a wider range of passenger facilities - almost of cruise-ship standard. This may be near to the maximum on routes to Scandinavia; operations on UK routes to the Continent and Ireland are farther behind, but have to bear in mind the likely effects of the Channel Tunnel, and a possible fundamental change in their costing structure if the EC imposes VAT on fares and withdraws duty-free facilities after 1992.

11. There are grounds for hope that the overall improvement in the market will continue. Orders for new ships, although increasing, have remained at lower levels than these of the early 1980s, partly because the governments of Korea and Japan appear to have tired of subsidising their yards to "buy" orders at below cost. The last year has consequently been marked by a substantial upwards surge in newbuilding prices and as a result many operators are seriously considering running on old tonnage. The major classification societies have developed condition assessment programmes to assist extending the economic working lives of existing ships beyond the normal 20-year span.

12. This price surge is likely to assume the proportions of a major threat during 1990s. The November 1989 report of a major analyst (County NatWest) estimated that the higher newbuilding prices now established will be subject to continuing and significant increases throughout the 1990s, fuelled by a markedly higher level of demand, particularly in the latter half of the decade. In the liner sector particularly, many of our competitors have active replacement programmes.

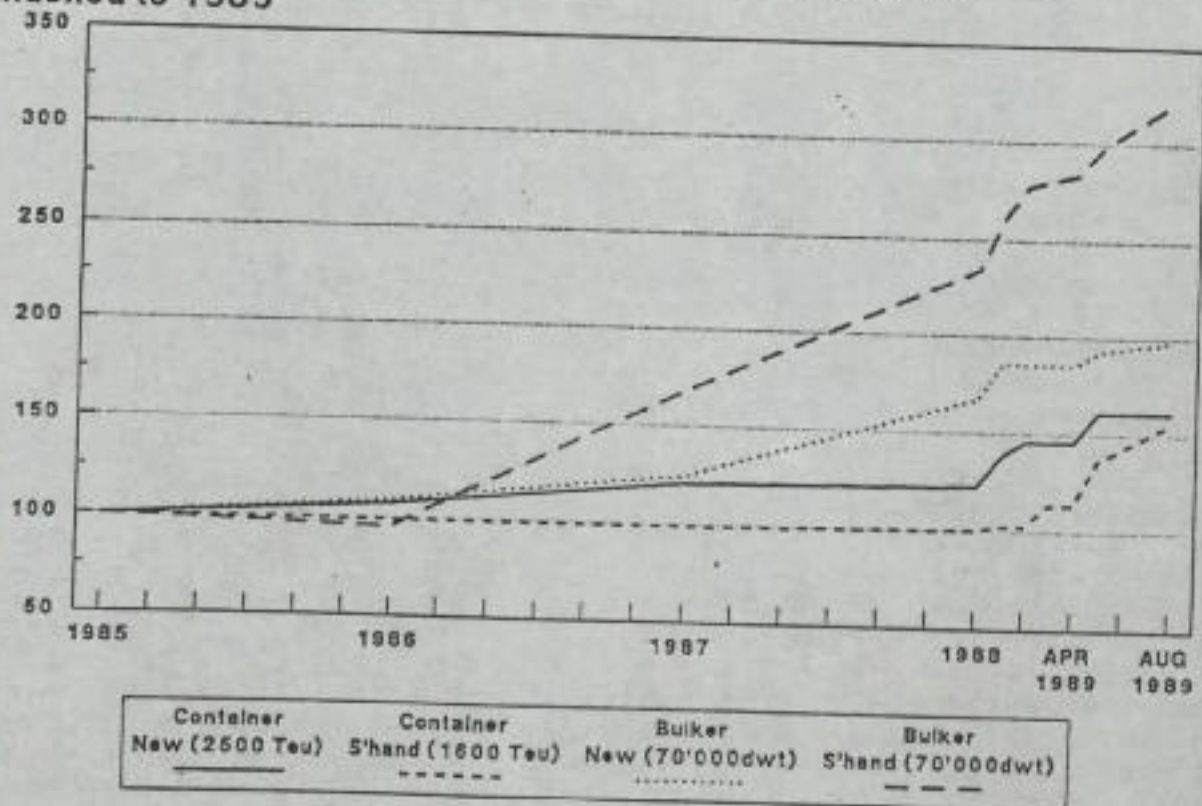
## WORLD AND UK ORDER BOOK



SOURCE: Lloyds Shipbuilding Returns

## NEW AND SECONDHAND SHIP PRICES

Indexed to 1985



SOURCE: Lloyds Shipping Economist

13. The improvement in revenues, coupled with this increase in new ship prices has naturally led to a marked rise in second-hand ship values - between 40% and 60% in some sectors - and which as yet shows no signs of abating. For the first time in a number of years, there has been substantial activity in the second-hand market. Norwegian, Greek and Far Eastern owners have been particularly active.

December 1989

EXAMPLE 1:                      3,000 DWT SHORT SEA BULK CARRIER

Net cash flow arising from finance costs, operating costs, earnings and capital allowances at 2 different rates.

£ M

YEAR	OECD FINANCE		100% EQUITY FINANCE	
	25% Writing Down Allowances	100% Ship Allowance	25% Writing Down Allowances	100% Ship Allowance
0	-0.6	-0.6	-3.0	-3.0
1	+0.1	+0.9	+0.6	+1.4
2	+0.1	-0.1	+0.5	+0.3
3	0	-0.1	+0.4	+0.3
4	0	-0.1	+0.4	+0.3
5	0	-0.1	+0.4	+0.3
6	0	0	+0.3	+0.3
7	0	0	+0.3	+0.3
8	0	0	+0.3	+0.3
9	+0.2	+0.2	+0.3	+0.3
10	+0.3	+0.3	+0.3	+0.3
11	+1.6	+1.6	+1.6	+1.6
12	-0.4	-0.4	-0.4	-0.4
RATE OF RETURN	14%	34%	9%	12%

NOTES:      Cost of ship £3m  
               Sale price, year 11, £1.25m  
               Annual earnings £600,000  
               Annual operating costs £317,000  
               OECD finance - 80% credit over 8½ years @ 8%  
               25% WDAs - current system of capital allowances ie 25%  
                           on reducing balance  
               100% SA - a 100% ship allowance

AUTUMN STATEMENT: PRESS CONFERENCE: SCIENCE

→ D.A.  
My Lib to me.  
R.C.G.  
11/11

#### INTERNATIONAL COMPARISONS

Q. A recent SERC study (by Dr Atkinson) shows that West Germany spends nearly three times, and France more than twice as much as Britain on civil science. The figures you have announced today are not likely to significantly alter those proportions, are they?

A. No, but we must not over-react to figures which simply confirm our present understanding of where the UK stands compared with other leading industrial nations. Comparisons are of course notoriously difficult. It continues to be the case that the Government spends more on civil science as a percentage of GDP than the United States and about the same as Japan.

That is inputs. We are more interested in outputs. For example, papers published in the main scientific journals. The UK share remained constant at 8.3% of world output between 1981 and 1986, while that of Germany declined from 6.3% to 5.9%, and that of France from 5.1% to 4.8%. In fact the UK still remains second only to the USA. Not a bad record.

Q. A recent SERC report shows that there are serious equipment deficiencies in university laboratories. Will the new money you have announced today make good those deficiencies?

A. The ABRC will be advising me on the allocation of the additional money for the Science Budget in due course. They will doubtless consider carefully what priority equipment should have in their advice. We have also increased capital funding for the universities through the UFC by some £30m over three years. This is mainly to allow for new equipment.

Wednesday, November 15, 1989

A

# Britain 'trails in science spending'

THE INDEPENDENT

## Europe faces 'large scale migration'

By Tom Wilkie  
Science Editor

WEST GERMANY spends nearly three times, and France more than twice as much as Britain on civil scientific research and development, according to official figures published yesterday.

A separate study, also by the government-funded Science and Engineering Research Council, has revealed that scientific equipment in Britain's universities is out of date and needs replacing. To do contemporary science properly, university researchers need £240m of new equipment; to be able to do tomorrow's science, they need a further £200m.

The figures cover only university researchers funded by the council — not medical researchers or scientists in large research institutes distinct from universities.

The council's international comparison has revealed that the Government spent £2.3bn on civil science in 1987, compared with the French government's £4.8bn, and the West German government's £6.3bn.

The figures are bound to be embarrassing to the Government, which will announce next year's science funding as part of the Chancellor's Autumn Statement on public expenditure today. But both studies have been under way for a long time and their publication is coincidental.

Particularly worrying for the SERC is that more and more

equipment is being needed for research in the biological sciences. In 1986, 13 per cent of the grants awarded by the council in the biological sciences went on equipment; in 1988 the proportion was 32 per cent.

Dr Harry Atkinson, who conducted the international comparison, said: "We wanted to understand the organisation and anatomy of research in the three countries."

One conclusion seems to be that France and Germany spend more money per researcher; scientists get better salaries; better support; more laboratory technicians, and better equipment.

The study found that every scientist in Germany has roughly two lab technicians or support staff.

Dr Atkinson said the British system of supporting research mainly in universities had the advantage that "our science is continually refreshed by young people coming through the system". But it meant that most academic were at best only half-time researchers, and the organisation of research tended to be ad hoc. In West Germany and France, research tended to be carried out in institutes separate from universities.

EUROPE must be prepared for the large scale movement of scientists across national boundaries and an internal EC brain drain from regions where facilities are poor, Sir David Phillips, chairman of the Advisory Board for the Research Councils, said, writes Mary Fagan.

The same sort of risk applied to Eastern Europe as movement of people to the West became easier.

At a Royal Society meeting on science, technology and 1992, he warned of a major risk that scientists from Eastern Europe might emigrate, with inevitable economic consequences in the countries they left.

"It would be perfectly natural if they tried to control this in some way, yet in terms of human freedom we would all feel it is a very wrong thing to do," he said.

In the EC, the advent of 1992 would also mean a much greater mobility of scientists at a time when skilled young people were becoming scarce.

Sir David warned that European orchestration of science must also be avoided in the run-up to 1992, and decisions on what science took place must still be made by scientists themselves. In an outspoken declaration of support for science directed from the "bottom up", he warned that we did not need more supranational or national direction on science.

FINANCIAL TIMES

**Aerospace chair** 12  
SHORT BROTHERS, the Belfast aircraft and missiles company, is to sponsor a new chair in aerospace engineering at Queens University, Belfast.

12.

9/1.

Equipment for research

The failure of the provision of research equipment in laboratories in HEIs and SERC to keep pace with rapidly advancing experimental disciplines was reviewed by Council. Based on experience with Interdisciplinary Research Centres, SERC has estimated that a "pulse" of about £240 million is needed to provide modern equipment selectively in the subject areas that the Council covers. This compares with the results of a recent survey commissioned by ABRC from Manchester University's PREST unit; it found that to carry out research satisfactorily in existing areas, additional equipment to the value of £260 million was needed and a further £200 million for research in new areas. This excluded medicine and free-standing computers. The Council has asked its Boards to locate particular problem areas within the general picture of under-provision. The current Council bid of £72 million over three years represents a 30 per cent share of the under-provision.

European research

Dr Harry Atkinson, SERC's Director Special Responsibilities, presented a comparative study of French, West German and UK support for civil science. The figures in the table in the annex are of interest. The figures are for 1986-87 for the UK and 1987 for France and West Germany. Market exchange



rates are used, not purchasing power parities. Definitions were presented to Council by Dr Atkinson and will be contained in his report shortly to be published.

Year	1985/87	1987	1987
1985/87			
1987			
1987			

- ENDS -

Further information can be obtained from:

The Press Office, SERC

## Annex to item on European Research

Main features of R&D exchange rates used: £1 = DM3 = FF10 year	UK	France	FRG
	1986/87	1987	1987
population	55m	54m	61m
<b>Funding</b>			
total (including defence and industrial)	£8.8b	£12.0b	£19.0b
public civil (included in above)	£2.3b	£4.8b	£6.3b
public civil as % of GDP	0.61%	0.91%	0.93%
<b>Manpower (Full Time Equivalent, FTE)</b>			
total (including defence and industrial) -			
researchers	130k	105k	145k
support staff	156k	169k	256k
public civil (included in above) -			
researchers	39k	55k	48k
support staff	49k	53k	73k

Basic & strategic research (independent assessment)			
<i>including HEIs and equivalent (eg CNRS, MPG etc) pursuing basic and strategic research</i>			
	UK	France	FRG
expenditure	£1.85b	£2.55b	£3.40b
<b>FTE staff -</b>			
researchers	32k	44k	35k
support staff	41k	41k	51k



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

16 November 1989

Paul Gray Esq  
PS/Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Paul,*

... I attach the briefing sheets that were in the Chancellor's folder for his oral statement in the House yesterday. I gather that the Prime Minister asked for these. They were put together in some haste and I cannot guarantee that they are accurate in every single respect.

*Yours,*

*Duncan*

DUNCAN SPARKES  
Assistant Private Secretary

## ECONOMY - GENERAL

Economy in a mess

Enormous improvement

- productivity<sup>+</sup> manufacturing grew faster since 1980 in UK than other major economies
- profitability highest since 1960s
- business start-ups 1600 a week in 1989
- employment up  $2\frac{3}{4}$  million since 1983

Led to a surge of confidence and a problem of too much growth.

Lowest growth rate in Europe/G7?

- Our cycle is ahead of theirs
- over 10 years to 1990 highest growth in EC
- 4 years to 1990 average growth about 3 per cent
- need a slowdown to return to growth without inflation.

No sign of slowdown

- Retail sales fallen over last 3 months
- house prices stopped rising and falling in some areas.

Why are inflation and trade deficit so high?

- Surge in borrowing in last 2-3 years
- with hindsight demand growing too fast in late 1987 and 1988
- expected Stock Market crash to lead to slowdown - as did Opposition [eg Smith 14 November "growth will inevitably slowdown. Now is the time for cuts in interest rates to stimulate the economy"].
- it didn't happen, economy roared on.

Unemployment to rise

- Hope not but largely in hands of wage negotiators
- excessive wage claims threaten not just own jobs but other peoples'
- (like Labour government) no forecast of unemployment.

Recession and bankruptcies

- Not forecasting a fall in GDP
- but firms need to keep their costs under control
- industry has more to fear from high inflation.

More mortgage misery/reposessions

- Understand difficulties
- but inflation must be brought down
- 85 per cent of household borrowing is mortgages
- reposessions in H1 1989 less than 0.1 per cent of loans
- average monthly payments on mortgages have risen £52 since June 1988 (low point).

Result of tax cuts

- Ludicrous
- fiscal policy as tight here as in than any other major country
- 1988 Budget cut taxes by £4 billion compare £54 billion increase in personal borrowing and the £11 billion increase in imports that year.

## FORECAST SUMMARY

	1988	1989	1990	PSDR
GDP - total	4½	2	1½	- PSDR 1989-90 forecast at £12.6 billion (£8.3 ex pp) compared to £13.8 billion (£8.8 ex pp) in FSBR
- non-oil	5	3	½	
Current Account	-14½	-20	-15	- no forecast for 1990-91 until next FSBR; working assumption in AS that same as in last FSBR (£10 billion)
Exports	½	4 <sup>3</sup> / <sub>4</sub>	6½	
Imports	12½	9½	1½	
Domestic demand	7½	3½	0	
Money GDP	10½	8½	6½	
RPI Q4	6½	7½	5½	

Demand slowing?

- retail sales virtually flat: in last three months show ½ per cent fall on previous three months and 1½ per cent higher than year earlier. Slowest annual growth since June 1982
- housing market cooled off markedly; latest RICS survey shows 95 per cent of estate agents reporting stagnant or lower prices over last quarter
- company spending takes longer to adjust but is clearly slowing, as recent intentions surveys show

## MONETARY POLICY

What is interest rate policy?

To set whatever interest rates are needed to bring down inflation.

Why is M0 above its target range?

- reflects growth of inflationary pressures
- coming back now towards target range

How will you get it within it?

- clear signs that high interest rates are bringing monetary growth back towards range

Credit controls?

- credit controls not the right way
- disadvantage British banks
- unenforceable in today's global markets

If Monetary Policy works, why are we in such a mess?

- because, with hindsight, monetary policy was not tight enough in the past
- underestimated the surge in confidence which led to unprecedented borrowing by consumers and an investment boom at the same time
- can't always predict these things exactly, bound to be cycle but need determination to get on top of inflation

New or broad money targets?

- no plans for new targets. M0 proven track record
- take broader money changes into account
- but velocity trend has been too unstable to make suitable for target
- difficult to interpret eg in 1980-81 and now gives no sign of tightening policy and impending slowdown

Funding policy?

- aim is for Government to conduct affairs to have a broadly neutral effect on funding
- but Mansion House Speech repeated that we do not offset all currency interventions within year so in practice likely to be some over-funding

this year

- [full Funding:- to fund total of maturing debt, PSBR and change in Foreign Exchange Reserves
- by sale of debt outside banking and building society sectors].

What is exchange rate policy?

To take exchange rate into account in setting interest rates and to stop a fall in the exchange rate undermining our counter inflationary policy

f overvalued?

- 1989 exports of manufactures up 11 per cent and profitability up
- shows firms can compete but certainly need to watch costs and look for opportunities

Let it float?

- No government can be indifferent to exchange rate
- a fall in exchange rate increases inflationary pressure
- I therefore favour a strong f

ERM now?

- not a panacea, still need high interest rates to bring down inflation
- not right to join now
- but when not whether and during Stage 1
- conditions clear - when UK inflation is significantly lower, there is capital liberalisation in Community and real progress has been made towards completion of single market, freedom of financial services and strengthened competition policy

Why has f fallen?

- f still around its level in 1987
- bound to be movements up and down
- tight fiscal and monetary policy will keep it firm

## MONETARY POLICY - FACTS

Exchange rate movements

	£/ERI	\$	DM
1978	101	1.92	3.85
1980/81 peaks	131.9	2.47	5.07
1985 (£/\$ trough)	90.9	1.04	3.61
1986 average	91.5	1.47	3.19
1987 *	90.1	1.64	2.94
1988 *	95.5	1.77	3.12
Budget day 1989	96.1	1.72	3.20
5 Oct (last interest rate rise)	91.6	1.62	3.03
25 Oct (pre Lawson)	90.1	1.61	2.96
14 November (close in London)	89.1	1.58	2.93

MTFS framework

Last MTFS published at Budget time in March

Main points:

	1989	1990	1991	1992
1989	-90	-91	-92	-93
Money GDP	7½	6	6	5½
Real GDP I	2½	2	3	3
Inflation I	5½	4	3	2½
M0 I	1-5	0-4	0-4	-1-3
PSDR (£ billion)	14	10	6	3

Monetary aggregates

	End 87	End 88	Sep 89
M0	+4.3	+7.7	+4.5*
M4	+16.3	+17.6	+17.3
Bank and Building Society Lending	+19.0	+24.5	+22.0

\* ¼-1 per cent higher adjusted for postal strike.

Money GDP

- Three measures - Expenditure, Income, Output

- should be equal but never are

- so CSO use GDP(A) on average

- CSO recently made adjustments so that GDP(E) grows in line with GDP(O) which they think is best short term measure

- volume (real terms) GDP figure inflated by GDP deflator to give money GDP.

Interest rates

	Base rates	10 year gilt
Oct 76 Labour high	15	
Oct 77 Labour low	5	
Oct 87 (Black Monday)	10	10.5
May 88 (low point)	7½	9.4
25 November 1988	13	10.1
24 May 1989	14	10.3
5 October 1989	15	10.5
14 November 1989	15	10.5

## INFLATION

Inflation not coming down

Bound to take time but clear that demand is slackening.

Inflation already peaked in May (8.3).

Mortgage interest distorts level but still as good as Labour's best month.

Interest rates forcing up inflation?

- perverse impact on RPI
- but encourage saving and discourage borrowing
- reduce demand pressure
- in time bring down inflation.

Why did inflation rise?

- rise in inflation is worldwide over last two years
- underestimated surge in confidence which led to unprecedented borrowing by consumers and investment bank
- with hindsight, should have tightened monetary policy at end-1987, early 1988
- but post-Stock Market crash, concerned at collapse in confidence

Forecast

	Percentage change on year earlier		
	1988 Q4	1989 Q4	1990 Q4
RPI	6½	7½	5½
Food	4	6½	5½
Nat. Ind.	7½	7½	7½
Housing	16½	17½	11
Other	4½	5	4½

Public sector prices to blame

- National industries need to finance investment.
- But their prices not big factor in RPI (4½ per cent weight).
- Main problem is housing where impact of interest rates is clear.

Housing?

- reflects mainly interest changes and rising house prices
- we expect growth in this component to fall next year
- never publish interest rates assumptions

Community Charge?

- level of community charge is up to LAs
- will be included in RPI
- PES figures based on past trends not on any assumption about community charge. But consistent with £278

Nationalised industries

- rises for rail (announced for February 10 per cent LRT, 9 per cent BR) reflect need to finance massive investment programmes
- industries should earn commercial return

History

	Average	Low	High
Labour 74-79	15.5	7.4	26.9
Conservative	7.6	2.4	21.9



## BALANCE OF PAYMENTS

Deficit serious problem?

- Does indicate economy has been overheating
- Must come down
- Forecast - £20 billion in 1989, £15 billion in 1990
- Fall of 1 per cent of GDP
- Hope and expect to see it fall further in later years
- Only ¼ of manufacturing imports are for consumption, ¾ for production and investment
- Private sector deficit does not reflect unsustainable government spending

Structural problem?

- Rise in manufacturing deficit reflects growth and demand and, particularly, investment
- Investment will help bring down future deficit
- Manufacturing exports rising strongly (11 per cent in 1989, 6½ per cent in 1990) shows we can compete.

Need to devalue?

- Key to competitiveness is unit costs - in industry's own hands
- Cannot allow depreciation to undermine our fight against inflation
- Exports growth shows British industry can compete
- But, as capacity constraints ease, industry needs to look for opportunities at home where imports could be displaced.

Forecast optimistic?

- No [uncertain but best guess]
  - One per cent of GDP full forecast 1990 over 1989
  - Larger year on year improvements
- |        |      |
|--------|------|
| 1968-9 | 1.6% |
| 1974-5 | 2.4% |

Deficit will weaken sterling?

- No
- Markets <sup>support</sup> ~~resisting~~ Government's sound policies and commitment to lower inflation
- Favour a firm exchange rate.

When will we get back to balance?

- Present level of deficit is too high
- But no presumption that we need exact balance; plenty of investment opportunities in UK
- Bound to be times of deficit and of surplus
- Expect a continuing decline in deficit beyond 1990

Invisibles

1989 - surplus down to £4 billion (from £6 billion) because:

- (a) lower earnings from interest/profit dividends as result of interest payments abroad
- (b) net transfers overseas 1990

Recovery of tourism and financial services forecast in 1989 and 1990 so £6 billion surplus in 1990

Current Account figures	£billion						
	1979	1985	1986	1987	1988	1989	1990
Manufacturing	2.7	-3½	-6	-8	-15	-17	-15
Oil	-½	8	4	4	3	1	2
Visibles	-3½	-3½	-9½	-11	-21	-24	-21
Invisibles	3	6½	9½	7½	6	4	6
Current Account	-½	3	-	-3½	-14½	-20	-15
Balancing item	1.1	6½	11	11½	12½	15½	

## ECONOMIC ASSUMPTIONS

North Sea Oil Prices and Exchange rate

Close to recent levels

Exchange rate November 14 89.1 ERI

Brent spot oil price of around \$18 a barrel.

Forecast: 1989-90 £12½ billion  
(Budget £13½ billion)

Assumption: 1990-91 £10 billion  
(MTFS)

Inflation

	Sept 89	Sept 90	Sept 91
RPI	7.6	6½	3
	89-90	90-91	91-92
GDP deflator	7	5	3½
			92-93

Unemployment (GB adult)

1.67	89-90	
1.75	90-91	- 92-93

Assuming increase in unemployment?

- Stylised assumption
- Never forecast unemployment (nor did Labour)
- depends on negotiations on pay
- with slow down in output growth unemployment could level off in coming months
- fallen by nearly 1½ million since July 1986
- employment up since 1983 by 2½ million
- 1.75 assumption set in summer for survey discussions, quicker than expected decline in unemployment since then but prudent not to adjust assumption lower for PES purposes

Reduction in PSDR 1989-90

- £½ billion lower privatisation proceeds
- higher take up of personal pensions.

Fiscal adjustment

- have not published fiscal adjustment in AS for four years
- tax changes and review of MTFS matters for the Budget
- have not thought about the Budget yet
- but determined to keep fiscal policy tight as part of anti-inflationary strategy

Assumptions on North Sea oil production

- accidents - Piper Alpha, Fulmer, Brent D., Cormorant
- reduced GDP growth by 1 per cent in 1989; forecast to boost growth by ½ per cent in 1990
- Depress trade balance by £½ billion in 1988 and £1½ billion in 1989
- oil surplus forecast to rise to £2 billion in 1990

## PSDR

## MANUFACTURING

Output increase

1989 Q3	Manufacturing	Industrial
1979H1	+12½	+11½
1981H1	+33	+25
1988Q3	+3½	-
1988 on 1987	6½	
1989 on 1988	4½	
1990 on 1989	1½	

Share of GDP

30½ per cent in 1974

28½ per cent in 1979

23½ per cent in 1988

- long run decline in share of GDP with the development of services
- but has grown faster than non-North Sea GDP in 1987 and 1988 and forecast to do so in 1989 and 1990

Investment 1989 H1 (including leased assets)

%age  
increase  
over

1988H1 6½

1983H1 63

1979H1 6

1988 on 1987 10½

- strong growth also in 1989, now at record level
- quality much improved too

TradeExports

- our share of world trade (in volume and value) falling over 20 years (all Governments)

BUT

A. The 1989 UK share volume of world trade forecast to rise

AND

B. volume of exports forecast to rise 6½ per cent next year in line with world trade

Imports

- share of imports in total demand rising for 20 years. (Value + Volume)
- growth will slow with domestic demand

Productivity

- up 5½ per cent a year since 1980
- fastest growth of all large industrialised countries (same is true from 1979-1989)

Profitability

- risen strongly since 1981
- industrial and commercial companies profitability highest for 20 years

Why did Lawson go?

● Question for him.

I have had less time than anyone to think about it.

Lawson saw the books and went?

- Wholly unfair
- no-one who knows my RHF would believe that for a moment
- temporary slowdown but long-term prospect is sustained growth without inflation.

PUBLIC SPENDING PLANS

You've lost control of it?

No. Ratios unchanged from last year.

Real growth in GGE averages 1½ per cent 88-89 to 92-93; same as increase from 88-89 in last plans.

GGE only 2½ per cent higher in real terms in 90-91 than in 84-85.

Faster growth of programme spending possible due to lower debt interest.

Government accommodating inflation?

No. Costs have risen but no across-the-board automatic compensation.

Key priorities show substantial real growth; some programmes show cash fall.

Reserves inadequate?

Reserves prudent; slightly lower than recent years reflecting NPT.

Additions to previous plans?

Impossible to say. Previous plans didn't include forward figures for some key elements of NPT such as central government grants to LAs. New plans together with projections of items outside NPT imply additions to total GGE of £5½/6½ billion next year and year after. (Probably similar increases on OPT basis.)

Planning total up sharply in 90-91?

Reflects introduction of new system of LG finance: huge swing from LA spending outside NPT to CG support for LAs within it.

Abandoned planning totals for GGE?

No change to GGE or overall public spending policy or objectives.

NPT simply a better instrument for achieving those objectives, allowing better planning and control.

Identifies more clearly differing responsibilities of CG and LAs.

1989 SURVEY: CHANGES TO GGE (ex pp)

	1988- 89	1989- 90	1990- 91	1991- 92	1992- 93
f billion	185.7	200.5	215.4	227.2	239.1
Survey increase			5½	6½	-
% Real increase on previous years		1.0	2.3	1.9	2.2
Average		1½	1988-89 to 1992-93		
GGE (ex pp) % of GDP	39	38½	39	38½	38½
[Last Autumn Statement	39½	39½	39	38½	-]
Debt Interest	18.1	17.8	15½	14½	14

SECRET

(vii) Main Changes to Departmental Programmes from 1989 PEWP

<u>Central Government Own Expenditure</u>	<u>£ million</u>		
	<u>Main Changes from 1989 PEWP</u>	<u>1990-91</u>	<u>1991-92</u>
Dept of Health	+1170	+1540	+2030
Dept of Social Security	+670	+1800	+4870
DOE - Housing	+570	+550	+710
Dept of Transport	+430	+460	+340
Northern Ireland	+330	+390	+230
Chancellor's Departments	+290	+350	+460
Trade and Industry	-80	-70	0
Department of Employment	-110	-220	-70
<u>Memo:</u>			
Total CG Own Expenditure	+4200	+6000	+11,250

Public Corporations

<u>Main Changes from 1989 PEWP</u>	<u>£ million</u>		
	<u>1990-91</u>	<u>1991-92</u>	<u>1989-90 - 1990-91</u> <u>increase fm</u>
Department of Transport	+400	+500	+170
Department of Energy	+310	-20	-300
<u>Memo:</u>			
Total Public Corporations	+840	+330	-150
of which:			
Nationalised Industries	+910	+530	-160

(viii) Local Authorities

New planning total includes only local authorities expenditure financed by central government support. Local authorities self-financed expenditure now outside planning total, though still counted within GGE.

New plans for central government support to local authorities:

1989-90	1990-91	1991-92	<u>£ billion</u> 1992-93
3.8	41.8	43.8	44.9

Comparison of OPT/NPT

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	- Non-domestic rate payments
	- Specific grants
	- Credit approvals
Privatisation proceeds Reserve	Privatisation proceeds Reserve
	New Planning Total
Old Planning Total	
General government debt interest	Local authority self-financed expenditure (net of capital receipts)
Other adjustments	Central government debt interest
	Other adjustments



## LOCAL AUTHORITY EXPENDITURE

Plans consistent with C.Charge of £278?

- projection of total (ie current + capital) LA spending based on past trends and slow modest real growth
- not based on any assumptions on how LAs will finance it
- up to LAs to set C.Charge
- £278 (England) charge for Total Standard Spending

LA self-financed expenditure unrealistic?

- Simply residual based on trends in total spending and plans for CG support
- surge in capital spending in 1989-90 distorts the trends (expected fall of £1.5 billion in 1990-91)

Unrealistic?

- 1990-91 figures in line with past trends taking account of fall in capital spending following surge in 1989-90
- falling real growth reflects greater discipline of C.Charge + fall in debt interest as authorities redeem debt

Main figures (£ billion)

	89-90	90-91	91-92	92-93
CG Support	38.1	41.8	43.8	44.9
Total LA expend.	51.5	53.5	55.5	57.5
Self-financed	13.2	12	12	12.5

Forecasts of LA spending unrealistic, so GGE projections incredible

Spending projected to rise in line with trends of past 10 years, (with some adjustment for lower capital spending next year) Lower increases in 91-92 and 92-93, reflecting fall in debt interest payments, some moderating of plans in line with greater accountability, and consistent with lower spending from receipts.

Forecasts of self financed spending imply community charge above £278?

Consistent with wide range of CCs (if pressed including £278)

Forecast derived from top down projection of LA spending, in line with past trends

Self financed expenditure not equivalent to community charge income. LAs can finance expenditure from variety of sources (cc, use of receipts, trading profits, balances, HRA surpluses, fees, charges, rents, interest receipts) so projections consistent with wide range of community charges.

Increase in central government support to las in 90-91?

Reflects:

- transitional relief
- community charge benefit higher than rates
- credit approvals increase as spending from receipts falls
- real increase in AEP
  
- difficulty of comparing old and new systems of LG finance, functional changes in LA responsibilities.

Fall in LA self financed spending in 90-91 Implausible?

Reflects:

- increase in central government support for las within total spending in line with past trends
- reduction in spending from receipts following surge in 89-90.

LA projections show £278 cc does mean massive cuts in LA services?

- huge overspending this year reflects anticipation of new capital control regime. Reduces need to spend next year.

- projections imply broadly constant LA spending

What if LAS overspend next year. Will GGE be overshoot?

- GGE not control total
- NPT White Paper said take LA spending into account in fixing PT next year (could tighten CG own spending or CG support to LAs)

## NHS

Huge increase in resources

- £2.4 billion cash increase, 1990-91 over 1989-90 (UK)
  - £2.6 billion increase in resources - 5½ per cent real increase (includes £150 million new cost improvement programmes and £25 million income generation)
- gross spending in NHS (England) in 1990-91 up 45 per cent real increase over 1978-79, compared with 6 per cent increase under Labour
- resources for NHS rising as percentage of GDP in 1989-90 and 1990-91 and well up on 1978-79
  - Gross capital spending in 1990-91 up over 55 per cent real over 1978-79; fell by 30 per cent under Labour. HCHS (England) capital provision up 18 per cent (12½ per cent real) in 1990-91 over 1989-90

Cuts this year

- 9 per cent increase in cash allocations in 1989-90
- taking account of cost improvements etc., 4 per cent real increase in resources
- waiting lists 6 per cent lower than 10 years ago
- £86 million invested over three years to improve problem
- 100 extra consultant posts to be created over three years (35 in 1989-90)

Review costs

- £257 million in 1990-91 (England) for specific recommendations of Review
- these include 100 extra consultant posts over three years, medical audit, etc. which will improve services
- but leaving that aside remaining increase in resources is 4 per cent in real terms in 1990-91

Pay

- Management's offer to ambulance men (6.5 per cent nationally; 9.3 per cent in London) reasonable; no provision for binding arbitration
- the question of pay for nurses and doctors must await Review Bodies reports
- no comment on funding implications before reports are available in January

Community Care White Paper

- expected shortly (Thursday)
- Main discussion of resource implications will be for next year's Survey.

## PUBLIC EXPENDITURE - OTHER PRIORITY PROGRAMMES.

**Transport**

**Roads:** cash spending on national roads planned to double from 88-89 to 92-93; by 90-91 capital spending on trunk roads and motorways will be nearly double 78-79 level in real terms; fell by over 40 per cent under Labour.

- **Rail:** extra £400-500 billion a year for rail to upgrade services, relieve congestion and improve safety. BR investment now at highest level since switch from steam. LRT at highest ever.

**Education**

- 10 per cent real increase in education and science provision between 89-90 and 90-91; large increase in support for students and fabric/equipment in schools/colleges
- record numbers entering higher education
- capital spending per school pupil up 8 per cent in real terms since 78-79. LA capital spending on education up 25 per cent in real terms in last 2 years.

**Housing**

- Central government support for provision of new homes by HAs will more than double 89-90 to 92-93
- extra £½ billion over next two years to tackle homelessness.

**Capital Spending**

- extra £½ billion for gross capital by CG/PCs in next two years
- CG capital spending plans imply 30 per cent increase from 78-79 to 92-93.

**Science**

- international comparisons do not reflect additions in 1989 Survey
- extra £110 million for civil S&T; DES science budget up 11 per cent in real terms next year and will then be 25 per cent higher than 1978-79
- basic research and environmental projects main beneficiaries of extra resources
- number of scientists and engineers employed on industrial R&D up 10,000 in six years to 1987
- academic staff in universities doing full time research in science and engineering up over 50 per cent in six years to 1987-88

## PUBLIC EXPENDITURE - LESSER PROGRAMMES

Defence

- 3 year deal provides firm framework
- plans show £1 billion increase each year on previous year
- 1 per cent annual rise in real terms (but falls as percent of GDP)
- 1992-93 almost 20 per cent up in real terms over 78-89
- UK spending second highest as per cent of GDP among major Nato allies
- no question of a defence review. Trident is on schedule and less than 6 per cent of defence budget.

Agriculture

- UK expenditure £2 billion in 89-90 rising to £2.6 billion in 92-93
- IBAP and CAP provision reduced by £150 million in 90-91 and 91-92 due partly to continuing CAP reform
- extra provision for food safety measures eg salmonella and cows (bovine spongiform encephalopathy)
- provision for devaluation of green £ as agreed in Agriculture Council last year
- farmers' income fall in 1988 partly reflects weather. Overall support for agriculture remains very substantial.

DTI

- Plans allow for increase on space including UK contribution to ESA
- Post Office provision includes substantial increase in investment to improve service quality
- net reductions in DTI programme largely reflect realistic view of take-up and spending on schemes such as RDG (now closed), RSA, Business Development Initiative
- DTI has major role to ensure markets work better; doesn't require major programme spending
- net reduction on S&T more than offset by S&T increases on other programmes.

FCO

- Substantial real increase in 89-90 and 91-92
- UK contribution to peace-keeping, boat people, drugs
- expanded programmes for British Council and FCO scholarships and exchanges
- BBC External Services 3 year deal reviewed next year.

## ODA

- 9 per cent real increase 92-93 over original 89-90 plan (4 per cent over outturn)
- UK aid 3.2 per cent of GDP; close to OECD average
- £5 million a year for Polish Know-how Fund
- UK private investment in developing countries (£1.4 billion in 88) greater than rest of EC combined
- Extra £100 million over 3 years in bilateral aid for tropical forestry.

## EC

- Budget discipline proving effective eg 1989 Budget £1.4 billion below ceiling
- UK gross contribution after abatement below 1 per cent of GNP
- Minor estimating changes to previous plans.

## Energy

- Provision up next year to reflect loss of negative electricity EFL and additional funding for AEA decommissioning and waste operations.
- no change in Coal EFL pending outcome of Coal/ESI negotiations
- restructured Coal in good shape
- increases for research into cleaner power generation.

## Employment

- Reductions reflect 25 per cent fall in unemployment in past year
- employers responsibility to train those in work: are spending £18 billion a year on training; most recent data suggests UK employers in line with Germans
- YTS will be developed; full provision for Business Growth Training programme; extra help for disabled; funding for 80 TECs; provision for streamlining Employment Service.

## Environment

- 25 per cent rise in spending on environmental research by 92-93, including Climate Change Centre
- substantial support for LAs to tackle waste disposal problems
- doubling UK's contribution to UN Environmental programme.

## Home Office

- Continuing real growth in law and order spending on top of 70 per cent since 78-79
- huge acceleration of prison refurbishment; anti-drugs initiative; programme to divert offenders from custody; increased number of policemen, police civilians, probation staff and courts' staff.

## Arts

- 3 year programme provides firm basis for forward planning by subsidised bodies
- 3 year programme reviewed in Survey and provision increased by £33 million in both 90-91 and 91-92.
- allows real growth of 7 per cent in 90-91 and 2 per cent in 91-92.

## Social Security

- Large rise in spending; averages 4 per cent per year in real terms, 89-90 to 92-93
- ½ million long-term sick and disabled will gain from disability package
- 200,000 people deferring pension now able to draw it whatever earnings following abolition of earnings rule.
- 2½ million poorer pensioners gain from October 89 IS/HB increases
- real increase in FC/IS for poorer families next April; third year of real benefit increases for poorer families.

## Territories

- SoSs all issuing press notices and will make detailed statements once allocations made
- for all expenditure identifiable by territory in 88-89, each territory has higher per capita spending than England.

## Chancellor's Departments

- Extra provision for IR including independent taxation, computers, relocation
- extra provision for Customs including Single Market and Channel preparations, anti-drugs effort, computers, relocation.

## Running Costs

- Running costs figures published as usual in PEWP.

## ANNEX A

(i) Programme bull points

[Totals represent additions to programmes unless otherwise stated]

[More detail on capital in E4]

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)	£1/2/3 million
	Combating nitrates (MAFF)	
	Capital grants to farmers to improve local environment (MAFF)	£3 million in 1990-91
	Earth Remote Sensing satellite (DTI)	£12/13/11 million per year
	Research into renewable energy resources (DEn)	)
	Energy efficiency	) £8.2/3.4/6.2million
	Development of cleaner power generation (DEn)	)
	Environmental research (DOE)	£8½ million per year including £4/5/5million 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 and waste incineration (DOE)	£43 million in total 1990-91
HEALTH	Full costs of NHS review proposals on top of expansion of services	£260 million in 1990-91 (England only)
	First 70 of 100 extra consultants Action on food safety and animal health (MAFF)	£25 million in 1990-91 £4 million per year
DISABLED	- more benefits (DSS)	full year cost:
	- better wheelchair service (DH)	£100 million



TRANSPORT	<ul style="list-style-type: none"> <li>Start on major new roads programme</li> <li>Manchester Metrolink</li> <li>Clear maintenance backlog by 1992-93</li> <li>Docklands road and rail links (DOE)</li> </ul>	<ul style="list-style-type: none"> <li>£65/65/90 million</li> <li>£93 million in total</li> <li>£60/90/85 million</li> <li>£200 million in 1990-91</li> </ul>
SOCIAL SECURITY		<ul style="list-style-type: none"> <li>Pensions</li> <li>£575 million in 1990-91</li> <li>Widows</li> <li>£5 million in 1990-91</li> <li>Lone parents</li> <li>£10 million in 1990-91</li> <li>Poorer families</li> <li>£150 million in 1990-91</li> <li>War pensioners</li> <li>£4 million in 1990-91</li> <li>16-17 years olds</li> <li>£4 million in 1990-91</li> </ul>
EDUCATION	<ul style="list-style-type: none"> <li>Top-up student loans</li> <li>City Technical Colleges</li> <li>Grant-maintained schools</li> <li>Increasing supply of teachers</li> <li>Extra grant for education authorities taking over from ILEA</li> <li>Improving fabric and equipment of Higher Education colleges</li> <li>Improving fabric and equipment of schools (to implement national curriculum):               <ul style="list-style-type: none"> <li>- Voluntary aided Schools</li> <li>- LEA Schools</li> </ul> </li> <li>Provision for more students</li> </ul>	<ul style="list-style-type: none"> <li>£130 million in 1990-91</li> <li>£10 million in 1990-91</li> <li>£17 million per year</li> <li>£5 million in 1990-91</li> <li>£100 million in 1990-91</li> <li>£30 million per year</li> <li>£15 million in 1990-91</li> <li>£43 m in total in 1990-91</li> </ul>
HOUSING	<ul style="list-style-type: none"> <li>Homelessness initiative</li> <li>More subsidised rented housing</li> </ul>	<ul style="list-style-type: none"> <li>£250m in total</li> <li>£710 million in total</li> </ul>
LOCAL GOVT	<ul style="list-style-type: none"> <li>Community charge transitional relief</li> <li>Area protection grant for community charge</li> <li>Grant for areas of low rateable value</li> </ul>	<ul style="list-style-type: none"> <li>£450 m in total in 1990-91</li> <li>)</li> <li>) £120/490/280m</li> <li>) in total</li> <li>)</li> </ul>
LAW AND ORDER	<ul style="list-style-type: none"> <li>Diversion from custody</li> <li>Anti drugs measures</li> <li>1100 more policemen</li> <li>Prison refurbishment</li> <li>Procedural changes in order to make the courts more cost effective</li> <li>Legal aid</li> </ul>	<ul style="list-style-type: none"> <li>£7m in 1990-91</li> <li>£5m in 1990-91</li> <li>full year cost: £17m</li> <li>£2.75 million in 1990-91</li> <li>£9 million in 1990-91</li> </ul>

SECRET  
until 15 November 1989  
then UNCLASSIFIED

E1

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 Economic reform in Nigeria	£5 million per year £47.5 million per year

### Capital Spending: main increases

£ million (cash)

	1990-91	1991-92	Real increase in 1990-91 compared with 1989-90 (per cent)	1990-91 increase compared with 1989 PEWP (per cent)
<u>Central government*</u>				
Transport (roads)	+350	+375	+34	+26
Housing	+190	+240	+44	+13
Education	+100	+80	+6	+24
Health	+120	+110	+7	+14
Urban development corporations	+250	+150	+19	[+100]
Rail (BR and London Regional Transport)	[+195]	[+360]	[+21]	[+16]
<u>Total</u> (£ billion)	+1½	+1½	[+10]	[+9]

\* England only. Expenditure in Scotland, Wales and Northern Ireland depends on decisions to be taken by relevant Secretaries of state.

### Capital spending: long-term trends

Percentage real terms changes

	1978-79 over 1973-74	1988-89 over 1978-79	1990-91 over 1978-79	1992-93 over 1988-89 (approx)
Railways (BR)	+8	+32	[ ]	[+110]
Motorways and trunk roads (England)	-41	+30	+120	+60
Prisons	-64	+219	[ ]	+10
NHS capital (England, gross)	-29	+31	+58	+10
Total Central Government	n/a	+21	+32	+10

STATISTICS  
BRITAIN  
1993

## DIFFICULT QUESTIONS

### public spending out of control?

- held to ratios as in 88AS
- growth in GGE 88-89 to 92-93 1½% real a year, same as 88 AS
- record of firm control - GGE in 90-91 risen only 2½% in real terms compared with 84-85.

### how much have you added to plans?

Short answer is GGE £5½bn higher in 90-91 than expected last year.

Planning total changed so direct comparisons not possible, but do know:

- central government and public corporations 90-91 up £5bn on previous plans due to increases in priority programmes
- substantial increases in projections of LA expenditure
- drawn down Reserve
- broadly additions to OPT same as to GGE

### Why 5½% real increase in NPT 89-90 to 90-91

- increase exaggerated by move to new planning total, which is sensitive to change in financing of LA spending from self financed to CG support within broadly constant overall total.

- more meaningful figure: 3½% real increase in central government due to increased spending on priority programmes.

### why declining ratio?

- enables lower taxes and borrowing
- reflects reduced scope of public sector
- as economy grows possible to have real growth in services without rising ratios.

### still policy to reduce ratio?

- over time, yes
- but CX said consistent with rise, if growth slowed down (TCSC)

### cuts in training?

- lower provision flows directly from fall in numbers of unemployed and tighter youth labour market, YTS guarantee fully met.
- plans permit improvements in quality of training, and more provision to help people into jobs
- still spending £2bn a year on YTS and ET. Main role is employers' - spending £18bn a year.

### cuts in DTI?

- provision reflects realistic forecast of take-up of support schemes eg RDGs (closed in 1988) and business development initiative. No policy changes.

### R&D

R&D spending by British industry up 27% real 1983-1987

no of projects supported by innovation programme will rise to 340 in 90-91, twice the number in 88-89.

### war widows?

age allowance for war widows increased in real terms by up to £3.55 a week..



DRAG Autumn  
Statement

# 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 1965-66.

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 1½ 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 <sup>the</sup> well-off 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, rail, 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 38½ per cent, about ½ per cent lower than envisaged when the plans were set.

expenditure on the old definition of the planning total will be about £168.2 billion, some 0.7 per cent higher than

## 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 38½ per cent, lower than the 39½ per cent previously forecast.

Table 1.1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP (£ billion)	General government expenditure (excluding privatisation proceeds) (Per cent of GDP)
	Cash (£ billion)	Real terms <sup>1</sup> (£ billion)		
1963-64	11.3	94.6	31.4	36½
1964-65	12.3	97.9	34.2	35½
1965-66	13.6	103.7	36.6	37½
1966-67	15.1	110.2	38.9	38½
1967-68	17.5	124.1	41.2	42½
1968-69	18.2	123.4	44.6	40½
1969-70	19.3	124.3	48.0	40½
1970-71	21.6	128.5	53.2	40½
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	42½
1974-75	42.9	168.7	89.3	48½
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	42½
1978-79	75.0	164.3	173.4	43½
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	46½
1983-84	141.6	182.6	309.2	45½
1984-85	152.6	187.4	331.1	46
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	41½
1988-89	185.7	185.7	476.1	39
1989-90	200.5	187.4	517	38½
1990-91	215.4	191.7 <sup>2</sup>	552 <sup>2</sup>	39 <sup>2</sup>
1991-92	227.2	195.4 <sup>2</sup>	587 <sup>2</sup>	38½ <sup>2</sup>
1992-93	239.1	199.6 <sup>2</sup>	621 <sup>2</sup>	38½ <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> 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 footnote 2 to Table 2.13.

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 38½ per cent respectively (see Table 1.2). By 1992-93, the ratio should decline to 38½ per cent, its lowest level since 1963-64 and 8 percentage points lower than 10 years earlier.

Chart 1.1 General government expenditure (excluding privatisation proceeds)

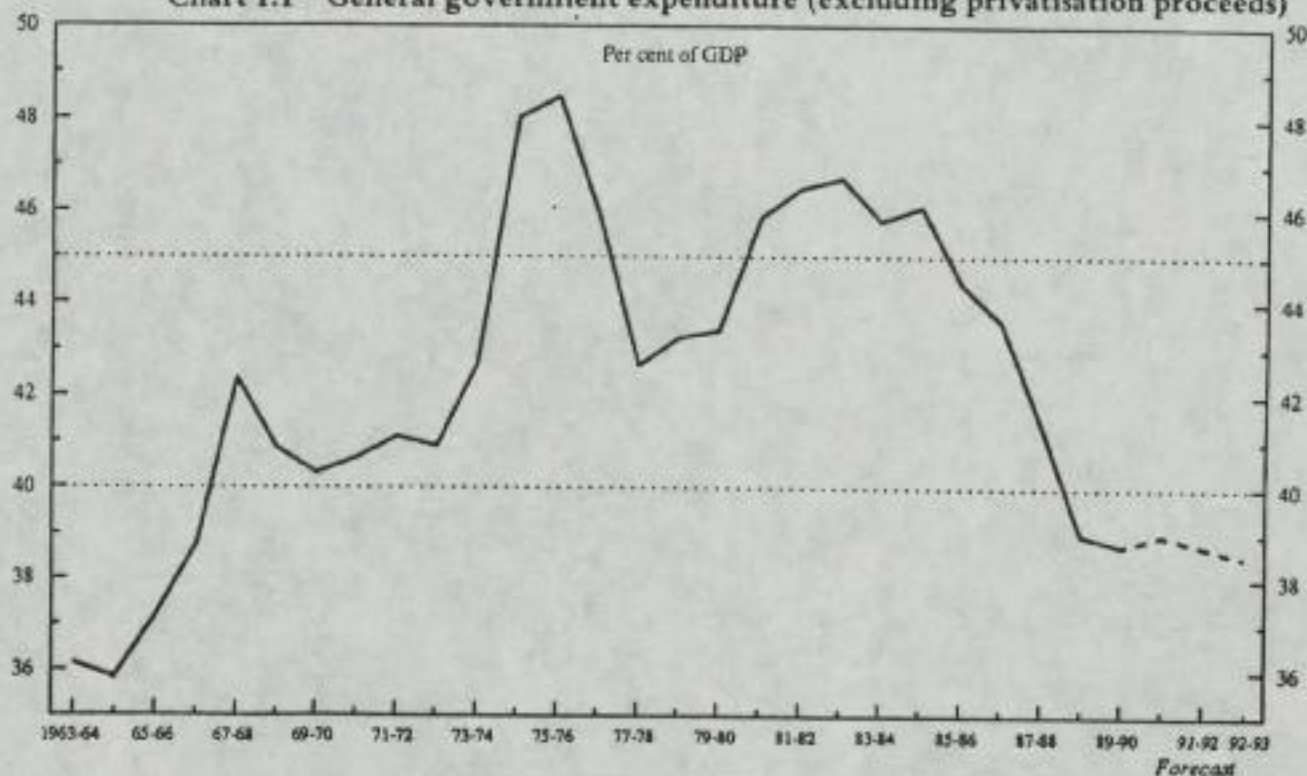


Table 1.2 General government expenditure<sup>1</sup>; plans and outturn

	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 <sup>2</sup>	46½	45½	44	43					
January 1986 White Paper (Cmnd 9702)	46½	45	44	43	42½				
January 1987 White Paper (Cm 56)	46½	44½	44½	44	42½	42½			
January 1988 White Paper (Cm 288)	46½	44½	44	42½	42	41½	41½		
January 1989 White Paper (Cm 621)	46½	44½	43½	41½	39½	39½	39	38½	
This Autumn Statement	46	44½	43½	41½	39	38½ <sup>3</sup>	39 <sup>4</sup>	38½ <sup>4</sup>	38½ <sup>4</sup>

<sup>1</sup>Excluding privatisation proceeds.

<sup>2</sup>Financial Statement and Budget Report

<sup>3</sup>Estimated.

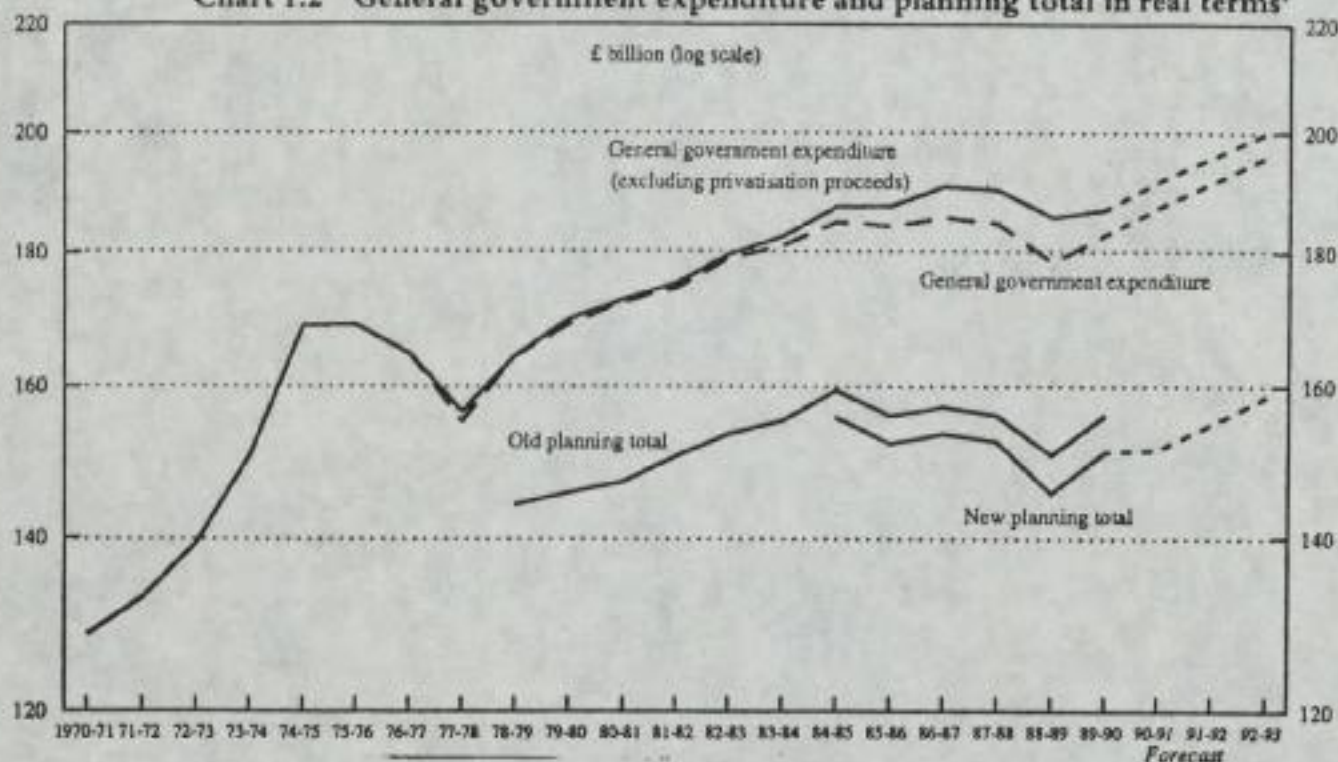
<sup>4</sup>See footnote 2 to Table 1.1.



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 1½ 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 1½ 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<sup>1</sup>



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 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<sup>1, 2, 3</sup>

	£ million				
	Outturn				
	1984-85	1985-86	1986-87	1987-88	1988-89
<b>Central government's own expenditure—</b>	<b>93 188</b>	<b>99 551</b>	<b>106 104</b>	<b>111 188</b>	<b>116 330</b>
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 <sup>4</sup>	1 808	2 266	1 578	1 790	1 559
Trade and Industry <sup>5</sup>	1 164	1 075	1 848	944	1 685
Export Credits Guarantee Department	532	345	288	151	109
Energy <sup>6</sup>	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 <sup>7</sup>	285	285	328	473	529
DOE—Property Services Agency <sup>8</sup>	0	0	0	0	0
DOE—Local Government <sup>9</sup>	0	0	0	0	0
Home Office (including the Charity Commission)	920	999	1 072	1 184	1 264
Lord Chancellor's and Law Officers' departments <sup>10</sup>	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 <sup>11</sup>	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
<b>Central government support to local authorities<sup>3</sup></b>	<b>30 707</b>	<b>31 083</b>	<b>33 286</b>	<b>35 654</b>	<b>36 450</b>
<b>Financial requirements of public corporations</b>	<b>4 981</b>	<b>2 634</b>	<b>1 038</b>	<b>793</b>	<b>-183</b>
<b>Reserve</b>					
<b>Privatisation proceeds</b>	<b>-2 050</b>	<b>-2 707</b>	<b>-4 460</b>	<b>-5 140</b>	<b>-7 065</b>
<b>Adjustment<sup>12</sup></b>					
<b>New planning total<sup>13</sup></b>	<b>126 827</b>	<b>130 561</b>	<b>135 968</b>	<b>142 495</b>	<b>145 532</b>
<b>Local authority self-financed expenditure<sup>14</sup></b>	<b>7 881</b>	<b>8 334</b>	<b>8 711</b>	<b>8 999</b>	<b>10 191</b>
<b>Central government debt interest</b>	<b>14 313</b>	<b>16 052</b>	<b>16 447</b>	<b>17 032</b>	<b>17 580</b>
<b>Accounting adjustments</b>	<b>1 532</b>	<b>3 129</b>	<b>3 355</b>	<b>4 007</b>	<b>5 283</b>
<b>General government expenditure</b>	<b>150 553</b>	<b>158 077</b>	<b>164 481</b>	<b>172 533</b>	<b>178 586</b>

<sup>1</sup> 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 *in situ* totals (except public corporations),

<sup>2</sup> 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.

<sup>3</sup> 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 amendments before the publication of the 1990 public expenditure White Paper.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> Includes Intervention Board for Agricultural Products and Forestry Commission.

<sup>7</sup> Includes Office of Fair Trading and Office of Telecommunications.

# 1 Public Expenditure Plans

Estimated Outturn	New Plans			
	1990-91	1991-92	1992-93	
126 500	137 760	145 200	152 400	<b>Central government's own expenditure—</b>
				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 <sup>4</sup>
1 230	1 250	1 120	1 030	Trade and Industry <sup>5</sup>
340	210	60	- 30	Export Credits Guarantee Department
460	440	410	400	Energy <sup>6</sup>
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 <sup>7</sup>
0	- 70	- 170	- 260	DOE—Property Services Agency <sup>8</sup>
0	40	40	50	DOE—Local Government <sup>9</sup>
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 <sup>10</sup>
4 310	4 800	4 940	5 080	Department of Education and Science
440	490	520	550	Office of Arts and Libraries
				Department of Health and Office of Population Censuses and Surveys
20 010	22 040	23 350	24 480	Department of Social Security <sup>11</sup>
47 200	51 970	55 670	59 200	Scotland
4 010	4 330	4 510	4 640	Wales
1 890	2 090	2 170	2 230	Northern Ireland
5 520	5 700	5 980	6 170	Chancellor of the Exchequer's departments
4 140	4 530	4 820	5 050	Cabinet Office, Privy Council Office and Parliament
320	350	360	370	European Communities
2 030	1 990	1 550	1 850	European Communities
38 100	41 900	43 600	45 000	<b>Central government support to local authorities<sup>1</sup></b>
1 540	1 490	2 320	2 360	<b>Financial requirements of public corporations</b>
	3 000	6 000	9 000	<b>Reserve</b>
- 4 250	- 5 000	- 5 000	- 5 000	<b>Privatisation proceeds</b>
- 200				<b>Adjustment<sup>12</sup></b>
<b>161 700</b>	<b>179 000</b>	<b>192 900</b>	<b>203 400</b>	<b>New planning total<sup>13</sup></b>
13 200	12 000	12 000	12 500	Local authority self-financed expenditure <sup>14</sup>
17 300	15 500	14 000	13 500	Central government debt interest
4 100	4 500	4 000	4 500	Accounting adjustments
<b>196 300</b>	<b>210 400</b>	<b>222 200</b>	<b>234 100</b>	<b>General government expenditure</b>

<sup>4</sup> Includes Office of Gas Supply and, from 1990-91 Office of Electricity Regulation.

<sup>5</sup> Includes Office of Water Services and Property Agency up to 1989-90.

From 1990-91 includes Property Holdings.

<sup>6</sup> From 1990-91, PSA Services.

<sup>7</sup> DOE local government includes Revenue Support Grants 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).

<sup>10</sup> 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.

<sup>11</sup> Includes grants for rate rebates up to 1989-90, and Community Charge benefit grant from 1989-90.

<sup>12</sup> An adjustment for the difference between the assessment of the likely outturn for 1989-90 and the sum of the other items shown.

<sup>13</sup> Plans for years up to 1989-90 were set using the old planning total (see paragraph 1.4); outturn data on this basis for 1988-89 and 1989-90 is shown in Table 1.13-1.15.

14 Figures shown for local authority self-financed expenditure, net of capital receipts, are derived on the basis described in paragraph 1.67. For 1988-89 to 1992-93, they are consistent with figures for total local authority expenditure of £46½ billion, £51½ billion, £53½ billion, £55½ billion, and £57½ billion respectively.

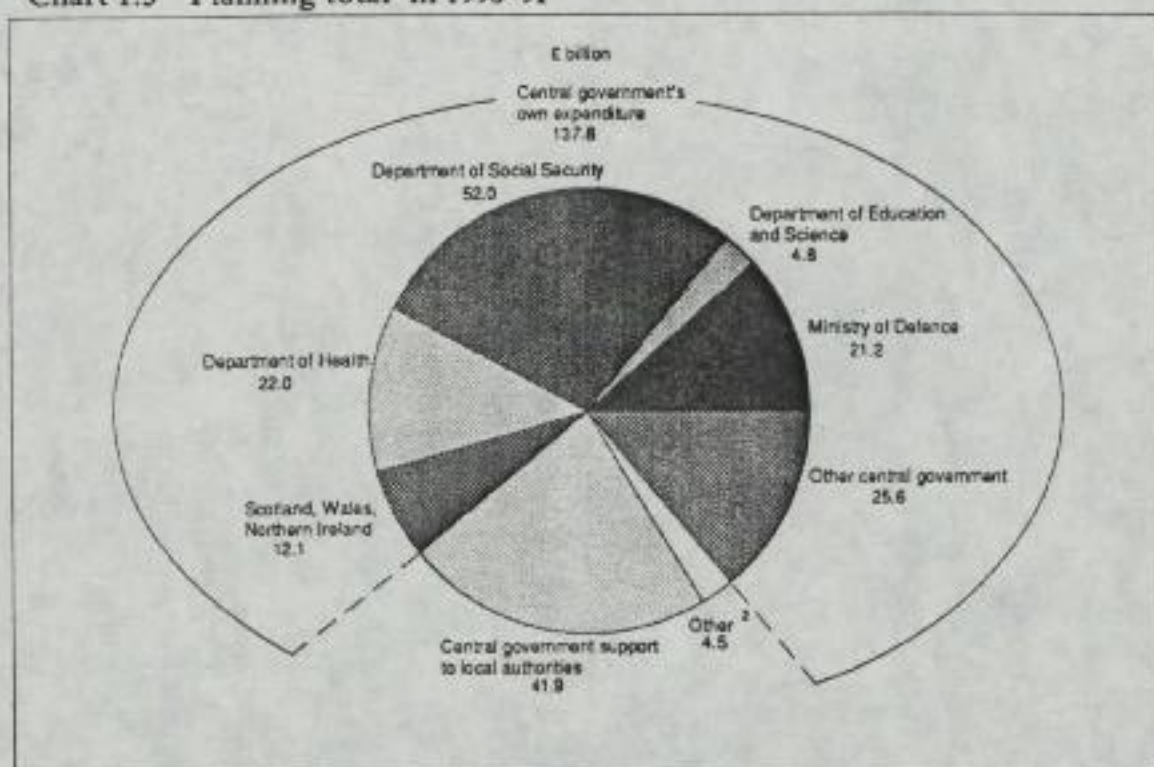
Table 1.4 Public expenditure planning total by department<sup>1</sup>

	£ million			New plans		
	Latest estimates of outturn			1990-91	1991-92	1992-93
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90			
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			
<b>New planning total</b>	<b>145 532</b>	<b>161 700</b>	<b>16 200</b>	<b>179 000</b>	<b>192 300</b>	<b>203 400</b>

<sup>1</sup> 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<sup>1</sup> in 1990–91



<sup>1</sup> Excluding privatisation proceeds.

<sup>2</sup> 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.

1.22 Spending on the NHS in the 1990-91 will be £2.4 billion higher than in 1989-90. This provides funds for the NHS review

proposals for improving the quality of health care, in addition to the resources needed to meet the rising demand for patient services. for disabled people and less well-off families; and for

1.22A 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

1.22B 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 £4 billion a year for loans and awards to students. There are also significant additions to 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, focusses on long term development, emergency relief. 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. *W. 12.1* there is also provision for a know-how fund for Poland.

*the overall total,*

**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 privatisation) of the substantial net repayments of external finance by the <sup>electricity</sup> 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 falling numbers of young people will enable *training standards to be maintained and improved while permitting savings in public expenditure.* 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 ~~£220~~ £250 million in 1990-91 and £250 million in 1991-92. This covers provision for investment in 1990-91 of £1,070 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 £540 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.*

1.41 The new plans provide £250 million over the next two years for a new Government initiative to help local authorities and housing associations relieve homelessness. In addition, extra funding now planned will enable the Housing Corporation to support an increase of £370 million (45 per cent) between 1989-90 and 1990-91 in provision of new homes by housing associations. The Housing Corporation's capital programme will more than double from £815 million this year to £1729 million in 1992-93. Government support for local authorities next year will include credit approvals and capital grants of £1814 million for renovation and other capital investment by local authorities and grants for the improvement of private sector housing. Partially offsetting the planned increases in expenditure is a projected increase in net receipts from disposals of New Towns housing and housing sites.

1.42 Also included within the new plans is provision for Government subsidy to local authorities' new, ring-fenced housing revenue accounts.

#### Other environmental services

1.43 This programme covers a wide range of services, including the Government's priority areas of the environment and urban regeneration.

1.44 On the environment, the new plans make provision for a 21 per cent increase in research spending over the next three years, a doubling of the UK contribution to the UN Environmental Programme, establishment of a new Climate Change Centre, extra staff for environmental protection in Her Majesty's Inspectorate of Pollution, substantial support for local authorities to deal with waste disposal problems and landfill gas, a 20 per cent increase in the funding of the Nature Conservancy Council and Countryside Commission, and support for the National Rivers Authority as an effective regulatory organisation.

1.45 On urban regeneration, the plans provide for an extra £260 million next year. This will mainly go towards further investment by Urban Development Corporations, and in particular transport links in London's Docklands. On the heritage, an extra £15 million a year is provided for historic Royal Palaces, the Royal Parks and English Heritage. These increases in expenditure are partially offset by a substantial increase in projected net capital receipts by New Towns.

#### Property Services Agency

1.46 From 1 April 1990 the Property Services Agency will be divided into Property Holdings and PSA Services.

1.47 Property Holdings will become part of DOE (Central) and will continue to manage the Government's civil estate. The plans for expenditure have been raised by £34 million net next year, mainly to cover increases in rent payments and major new works on the estate and also the Parliamentary works at Bridge Street and the Victoria Tower.

1.48 PSA Services will carry out project management, design, maintenance and estate management services on a project basis for Departments. The plans envisage that PSA Services should cover expenditure other than restructuring costs from fees in 1990-91 and earn small surpluses on these items in 1991-92 and 1992-93. Separately from this, provision is made for £30 million net for restructuring next year, including capital expenditure on information technology, in preparation for privatisation in 1992-93.

**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, 40 per cent higher than in 1979. 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. £½ 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 supported by the Arts Council. It will enable the National Museums and Galleries to carry out further improvements to their buildings. 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 £2.4 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 £2.6 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. (Ca 555)

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, but to focus additional resources on less well off families with children, including lone parents. He announced ten new measures which are expected to help ½ million long term sick and disabled people. 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.

x  
x  
and others with special needs such as the Disabled.  
x

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; 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 2½ million pensioners and the abolition of the pensioners' earnings rule, both implemented in October 1989.

x  
x  
x  
of the least well off

**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 covers some costs associated with the Channel Tunnel, 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.

x  
x  
and growth in workload

and Savings

**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			New plans		
	Latest estimates of outturn			1990-91	1991-92	1992-93
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90			
Non-domestic rates payments	8 788	9 620	830	10 430	} 25 950 <sup>3</sup>	} 26 700 <sup>4</sup>
England	1 290	1 220	- 70	1 190		
Scotland	368	410	50	420		
Revenue support grants <sup>2</sup>	9 824	9 610	- 210	9 490	} 25 950 <sup>3</sup>	} 26 700 <sup>4</sup>
England	2 007	2 340	330	2 450		
Scotland	1 015	1 050	30	1 130		
Transitional grants <sup>5</sup>	—	—	—	670	840	550
Other current grants <sup>6</sup>	8 918	9 800	900	11 400	12 000	12 400
Capital grants <sup>7</sup>	544	620	80	1 300	1 300	1 300
Credit approvals <sup>8</sup>	3 697	3 410	- 290	3 800	4 000	4 000
<b>Total</b>	<b>36 450</b>	<b>38 100</b>	<b>1 600</b>	<b>41 800</b>	<b>43 800</b>	<b>44 900</b>
of which AEF/AEG	24 789	26 240	1 390	28 800	30 130	30 810

<sup>1</sup> 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 1.A.10.

<sup>2</sup> Rate Support Grant up to 1 April 1989 in Scotland and 1 April 1990 in England and Wales.

<sup>3</sup> Comprising £20 550 million (England), £3 770 million (Scotland), £1 630 million (Wales).

<sup>4</sup> Comprising £21 140 million (England), £3 880 million (Scotland), £1 680 million (Wales).

<sup>5</sup> 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.

<sup>6</sup> See Table 1.6.

<sup>7</sup> See Table 1.7.

<sup>8</sup> 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<sup>1</sup>

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

<sup>1</sup> 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 non-rate shown separately in Table 1.5.

<sup>2</sup> Includes Intervention Board for Agricultural Produce, and payments from local authorities to the National Rivers Authority for land drainage.

<sup>3</sup> Includes central government support for rent rebates from 1990-91.

<sup>4</sup> 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	87	490	283
Area protection grant	30		
Transitional relief	453	277	212
<b>Total</b>	<b>670</b>	<b>837</b>	<b>545</b>

<sup>5</sup> 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 the <sup>introduction</sup> of 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. The grant paid to inner London boroughs will provide further assistance to community charge payers in those authorities.

1.65 Table 1.5 <sup>identifies</sup> 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 certain 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<sup>1</sup> and capital grants in support of local authority capital expenditure**

	£ million		New Plans		
	Latest estimates of outturn		1990-91	1991-92	1992-93
	1988-89 outturn	1989-90 estimated outturn			
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 <sup>2</sup>	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
<b>Total</b>	<b>4 241</b>	<b>4 030</b>	<b>5 100</b>	<b>5 300</b>	<b>5 300</b>
of which					
capital grants	544	620	1 300	1 300	1 300
credit approvals	3 697	3 410	3 800	4 000	4 000

<sup>1</sup> Or territorial equivalents.

<sup>2</sup> Proxies have been used for credit approvals for years before 1990-91: see footnote 1 to Table 1.5.

<sup>3</sup> Includes credit approvals issued on behalf of Department of Employment, Department of Trade and Industry, and the Office of Arts and Libraries. [MAFF]

1.67 Under the new arrangements being introduced next year, the Government will no longer make plans for total local authority current and capital expenditure - only for grants and credit approvals which provide support for total local authority spending. But in order to provide a path for GGE it is necessary to project total local authority expenditure, net of capital receipts, including expenditure which local authorities finance from their own resources.

1.68 Local authority current expenditure in 1989-90, excluding debt interest payments, is now expected to exceed provision by about £1 billion, while gross local authority capital expenditure is estimated to be some £14 billion in excess of provision, at about £9 billion (see table 1.14). The large excess on capital expenditure is thought to reflect a very high level of expenditure financed from capital receipts this year, before a proportion of accumulated capital receipts is required to be set aside for debt redemption under the new regime from April 1990.



1.69. The level of total expenditure by local authorities in 1990-91 and beyond will reflect the spending decision which local councils will take in the light of the amounts of central government support made available and the implications for the community charge. The projections in this Autumn Statement assume that, in general, local authority spending will rise year 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. Starting from this base, total local authority spending is projected to grow more slowly in 1991-92 in real terms and to remain broadly flat in 1992-93.

1.70. Deducting the support provided by central government from total local authority expenditure gives a measure of the expenditure which local authorities finance from their own resources - community charge income, use of capital receipts, balances and other income. Figures for this local authority self-financed expenditure, net of the inflow of capital receipts, are shown in table 1.3. The profile reflects the exceptionally high levels of expenditure from their own resources (notably use of capital receipts) by local authorities in 1989-90 and the transitional relief for community chargepayers provided by central government from 1990-91.

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").

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 return. External finance for nationalised industries has been significantly reduced, from nearly £3 billion in 1979-80 to an estimated £670 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 electricity privatisation is planned for 1990 and 1991; 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
x	British Railways Board	646	760	760
x	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		
x	Electricity (England and Wales)	-1000 <sup>1</sup>		
x	Electricity (Scotland)	122 <sup>1</sup>		
	<b>Total</b>	<b>520</b>	<b>1,510</b>	<b>1,510</b>

<sup>1</sup> 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 Included within the Departmental programme totals 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. The largest increase in provision now planned for next year is for the London Docklands Development Corporation. The planned increases for the Urban Development Corporations in all three years ahead are more than offset by increased estimates of net capital 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, <sup>(3 own)</sup> 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 £½ billion in 1990-91, rising to some £½ billion in 1991-92. Provision for investment by other public corporations has been increased by some £½ billion in 1990-91. Total additions to provision for capital investment in transport, by both central government and public corporations, amount to over £½ 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 £4½ 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, Chart 1.2 shows 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 3½ per cent in 1988-89 and is projected to fall further to 2½ 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 <sup>1</sup>	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 <sup>1</sup>	4½	3½	3½	2½	2½	2½
General government net debt interest	2½	2½	2	1½	1½	1½
<sup>1</sup> 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 £2½ 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 £½ 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 £¼ 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.

x

Table 1.10 Central government's own expenditure<sup>1, 2</sup>

	£ million			New plans			Changes from 1989 White Paper <sup>3</sup>		
	Latest estimates of outturn			1990-91 Plans	1991-92 Plans	1992-93 Plans	1989-90	1990-91	1991-92
	1988-89 Outturn	1989-90 Estimated outturn	Changes 1988-89 to 1989-90						
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 <sup>4</sup>	3 827	4 010	180	4 370	4 570	4 710	20	210	240
Wales <sup>4</sup>	1 730	1 890	160	2 110	2 190	2 250	20	150	170
Northern Ireland <sup>4</sup>	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
<b>Total</b>	<b>116 335</b>	<b>126 650</b>	<b>10 320</b>	<b>137 700</b>	<b>145 230</b>	<b>152 100</b>	<b>700</b>	<b>4 200</b>	<b>6 000</b>

<sup>1</sup> See footnotes to Table 1.3.<sup>2</sup> Figures exclude finance for public corporations.<sup>3</sup> 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 1.91.<sup>4</sup> See paragraph 1.56.

Table 1.11 Public corporations<sup>1</sup>

	£ million								
	Latest estimates of outturn			New plans			Change from 1989 White Paper <sup>2</sup>		
	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 <sup>3</sup>	342	370	50	310	470	480	10	80	0
Wales <sup>3</sup>	104	130	20	120	120	110	10	10	0
Northern Ireland <sup>3</sup>	275	190	-90	170	150	150	-60	0	10
Chancellor's departments	-7	0	10	-10	-20	-20	0	0	0
<b>Total<sup>4</sup></b>	<b>-183</b>	<b>1 590</b>	<b>1 790</b>	<b>1 370</b>	<b>2 300</b>	<b>2 340</b>	<b>760</b>	<b>840</b>	<b>330</b>
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

<sup>1</sup> 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.

<sup>2</sup> See footnote 3 to Table 1.10.

<sup>3</sup> See paragraph 1.56

<sup>4</sup> 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<sup>1, 2</sup>

	£ million				
	Outturn				
	1984-85	1985-86	1986-87	1987-88	1988-89
<b>Central government's own expenditure—</b>	<b>114.6</b>	<b>116.2</b>	<b>119.8</b>	<b>119.3</b>	<b>116.3</b>
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
<b>Central government support to local authorities</b>	<b>37.8</b>	<b>36.3</b>	<b>37.6</b>	<b>38.2</b>	<b>36.5</b>
<b>Financial requirements of public corporations</b>	<b>6.1</b>	<b>3.1</b>	<b>1.2</b>	<b>0.9</b>	<b>-0.2</b>
<b>Reserve</b>					
Privatisation proceeds	-2.5	-3.2	-5.0	-5.5	-7.1
<b>Adjustment</b>					
<b>New planning total</b>	<b>156.0</b>	<b>152.4</b>	<b>153.6</b>	<b>152.8</b>	<b>145.5</b>
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
<b>General government expenditure</b>	<b>185.2</b>	<b>184.6</b>	<b>185.8</b>	<b>185.0</b>	<b>178.6</b>

<sup>1</sup> See footnote to Table 1.3.<sup>2</sup> 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).



# 1 Public Expenditure Plans

Estimated Outturn	New Plans			
	1989-90	1990-91	1991-92	
118.2	122.6	124.9	127.0	<b>Central government's own expenditure—</b>
				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	4.1	3.8	3.8	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	47.3	49.6	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	37.7	37.6	<b>Central government support to local authorities</b>
1.4	1.3	2.0	2.0	<b>Financial requirements of public corporations</b>
	2.7	5.2	7.5	<b>Reserve</b>
-4.0	-4.5	-4.3	-4.2	<b>Privatisation proceeds</b>
-0.2				<b>Adjustment</b>
151.1	159.3	165.4	169.9	<b>New planning total</b>
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	187.3	191.1	195.5	<b>General government expenditure</b>

Table 1.13 Old planning total, 1988-89 and 1989-90<sup>1</sup>

	£ 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 <sup>2</sup>
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
<b>Old planning total</b>	<b>149 638</b>	<b>168 200</b>	<b>18 600</b>	<b>1 100</b>

<sup>1</sup> See footnotes 1, 4-8, 10 and 12 to Table 1.3.<sup>2</sup> 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 <sup>1</sup>	Estimated outturn	Changes from 1989 White Paper <sup>1</sup>
Central government <sup>2</sup>	123 718	124 300	600
Local authority expenditure <sup>2</sup>			
—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 <sup>3</sup>	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

<sup>1</sup> Adjusted for minor classification changes other than those described in footnote 1 to Table 1.A.1.

<sup>2</sup> Excluding finance for public corporations.

<sup>3</sup> See footnote 12 to Table 1.3.

Table 1.15 Local authority expenditure in 1988-89 and 1989-90 (old planning total basis)<sup>1, 2</sup>

	£ 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 <sup>3</sup>
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	15 475	15 920	480	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
<b>Old Planning Total</b>	<b>42 458</b>	<b>46 700</b>	<b>4 200</b>	<b>2 700</b>
of which:—				
Current	39 601	42 400	2 800	1 000
Capital	2 857	4 280	1 420	1 670

<sup>1</sup> Figures exclude debt interest and finance for public corporations.<sup>2</sup> See footnotes 1, 4-8 and 10 to Table 1.3.<sup>3</sup> Adjusted for minor classification changes other than those described in footnote 1 to Table 1.4.1.

Table 1.16 Old planning total<sup>1</sup>; 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				
February 1984 White Paper (Cmnd 9143)	126.6	132.2	136.8			
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 <sup>2</sup>

<sup>1</sup>Planning total on 1989 White Paper definition adjusted for minor classification changes, other than those described in footnote 1 to Table 1.A1.

<sup>2</sup>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 <sup>1</sup>
Central government <sup>2</sup>	—	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	¾
Other	0.4	0.5	0.6	1.1	1.5	1.0	¾
Total	1.7	1.7	2.0	2.9	4.6	4.3	¾
Total general government	1.8	1.8	2.2	3.1	4.9	4.6	4

<sup>1</sup>Projected local authority receipts for 1990-91 and the total are rounded to the nearest £ billion.

<sup>2</sup>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 count 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. Figures for local authority self-financed expenditure, net of capital receipts, are derived by subtracting from the figures for total local authority expenditure the support made available by central government (ie the sum of the local authority elements of the new planning total). For 1984-85 to 1987-88, they are consistent with figures for total local authority expenditure of £38.6 billion, £39.4 billion, £42 billion, and £44.7 billion respectively.

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)	Central Government support for local authorities
—current	—Revenue Support Grant
—capital	—Non-domestic rate payments
	—Credit approvals
Privatisation proceeds Reserve	Privatisation proceeds Reserve
	<b>New Planning Total</b>
<b>Old Planning Total</b>	Local authority self-financed expenditure (net of capital receipts)
General government debt interest	Central government debt interest
Other adjustments	Other adjustments
	<b>General government expenditure</b>

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
<b>Central government's own expenditure</b>				
White Paper plans	131.2	—	136.9	—
Classification changes <sup>1</sup>	—	+2.3	—	+2.4
Survey changes	—	+4.2	—	+5.9
New plans	—	137.7	—	145.2
<b>Public corporations</b>				
White Paper plans	0.6	—	2.0	—
Classification changes <sup>1</sup>	—	-0.1	—	-0.1
Survey changes	—	+0.8	—	+0.3
New plans	—	1.4	—	2.3
<b>Local authority current</b>				
White Paper plan (expenditure)	43.2	—	44.6	—
RSG and NDR	—	25.1	—	26.0
Other current grants	—	12.1	—	12.8
<b>Local authority capital</b>				
White Paper plan (net expenditure)	2.4	—	2.5	—
Capital grants	—	1.3	—	1.3
Credit approvals	—	3.8	—	4.0
<b>Privatisation proceeds</b>	-5.0	-5.0	-5.0	-5.0
<b>Reserve</b>				
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 [6.3]
Local authority self-financed expenditure (net of capital receipts) <sup>2</sup>	—	12.0	—	12.0
General government debt interest	15½	—	14½	—
Central government debt interest	—	15½	—	14.0
Other adjustments <sup>3</sup>	10½	4½	9½	4.0
<b>General government expenditure</b>	<b>205.0</b>	<b>210½</b>	<b>215½</b>	<b>222½</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Other adjustments in the new plans are lower than in the White Paper because of the classification changes described in footnote 1 —4 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 (1988-89 = 1)
	Old definition <sup>1</sup>		New definition		Cash	Real <sup>2</sup>	
	Cash	Real <sup>2</sup>	Cash	Real <sup>2</sup>			
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

<sup>1</sup> Excluding the major classification changes made along with move to new planning total: see footnote to Table 1A.1.

<sup>2</sup> 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).

## Chapter 2

# ECONOMIC PROSPECTS FOR 1990

### Summary

- 1 GDP is forecast to grow by  $1\frac{1}{4}$  per cent in 1990. RPI inflation should fall to  $5\frac{3}{4}$  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  $7\frac{1}{2}$  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  $5\frac{3}{4}$  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.
- UK trade and current account** 5 The UK current account deficit is expected to be around £20 billion in 1989. The current account deficit 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  $\frac{1}{2}$  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,  $1\frac{3}{4}$  per cent of GDP); the actual PSDR will be set in the 1990 Budget.

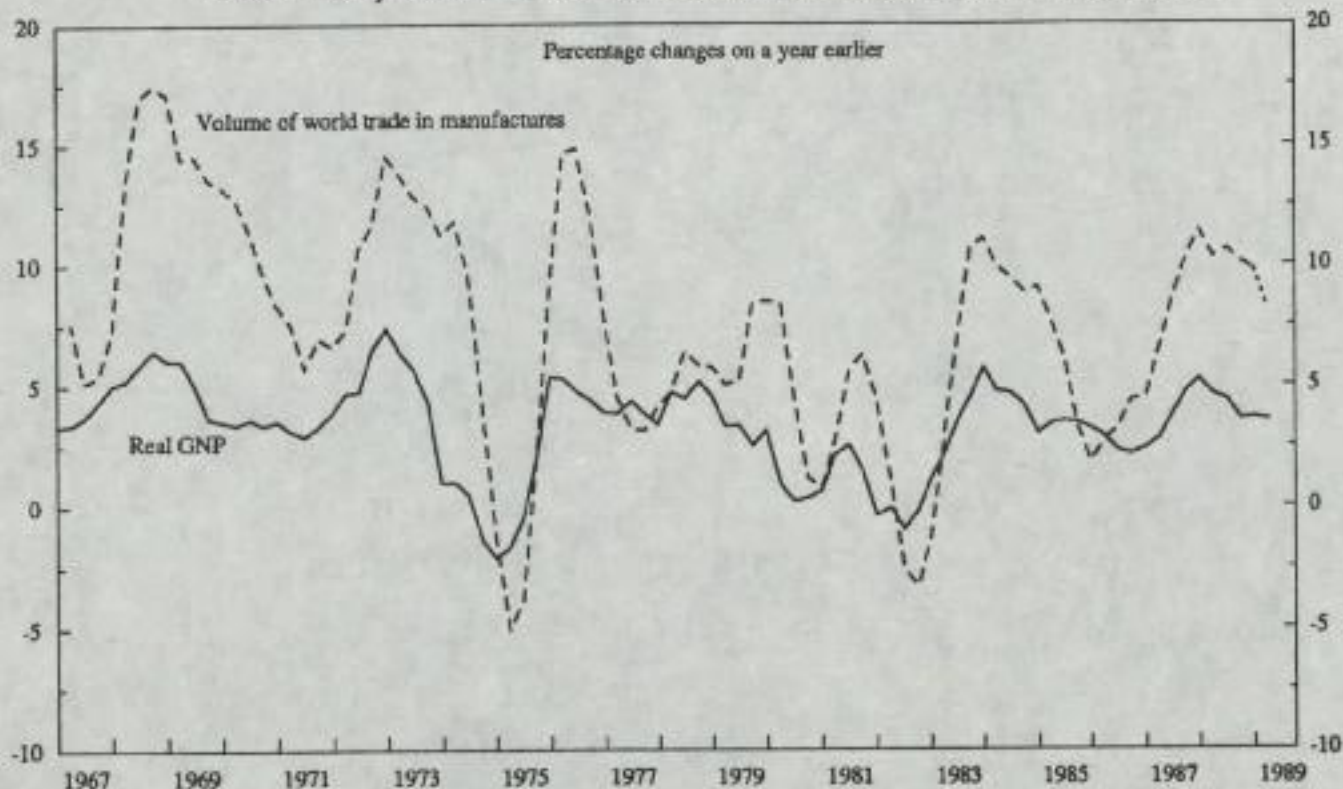
## World economy

**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 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 across the G7. Investment and exports have continued to expand rapidly.

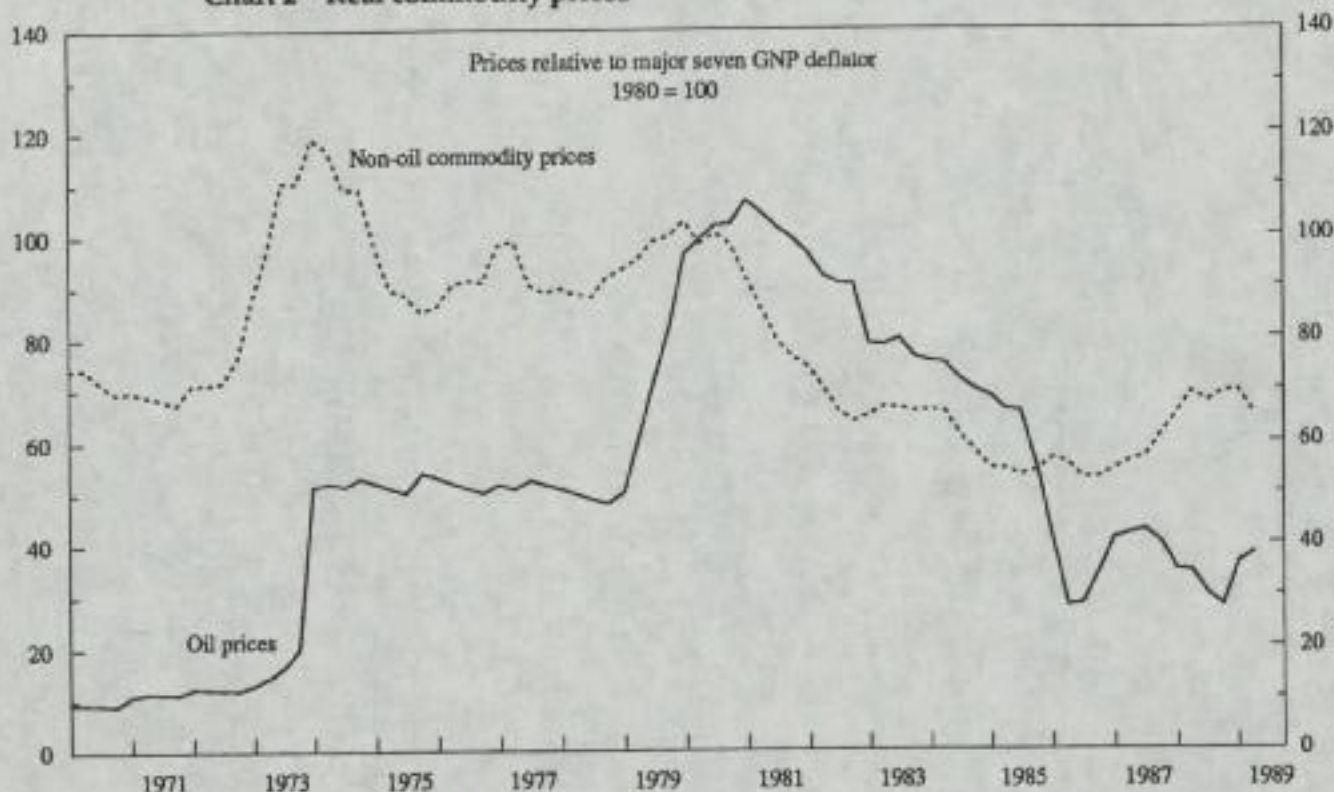
10 Growth has been rapid in many other OECD and developing economies. World trade in manufactures grew by over 10 per cent in 1988, after 8 per cent in 1987, the fastest two year expansion of the 1980s.

**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.

Table 1 World economy

	Percentage changes on previous year		
	1988	Forecasts	
		1989	1990
<i>Major seven countries<sup>1</sup></i>			
Real GDP	4 1/2	3 1/2	2 3/4
Real domestic demand	4 3/4	3 1/2	2 3/4
Industrial production	6	4	3
Consumer prices	3 1/2	4 1/2	4
<i>World trade, at constant prices</i>			
Total imports	8 1/2	7	5
Trade in manufactures	10 1/2	7 1/2	6 1/2

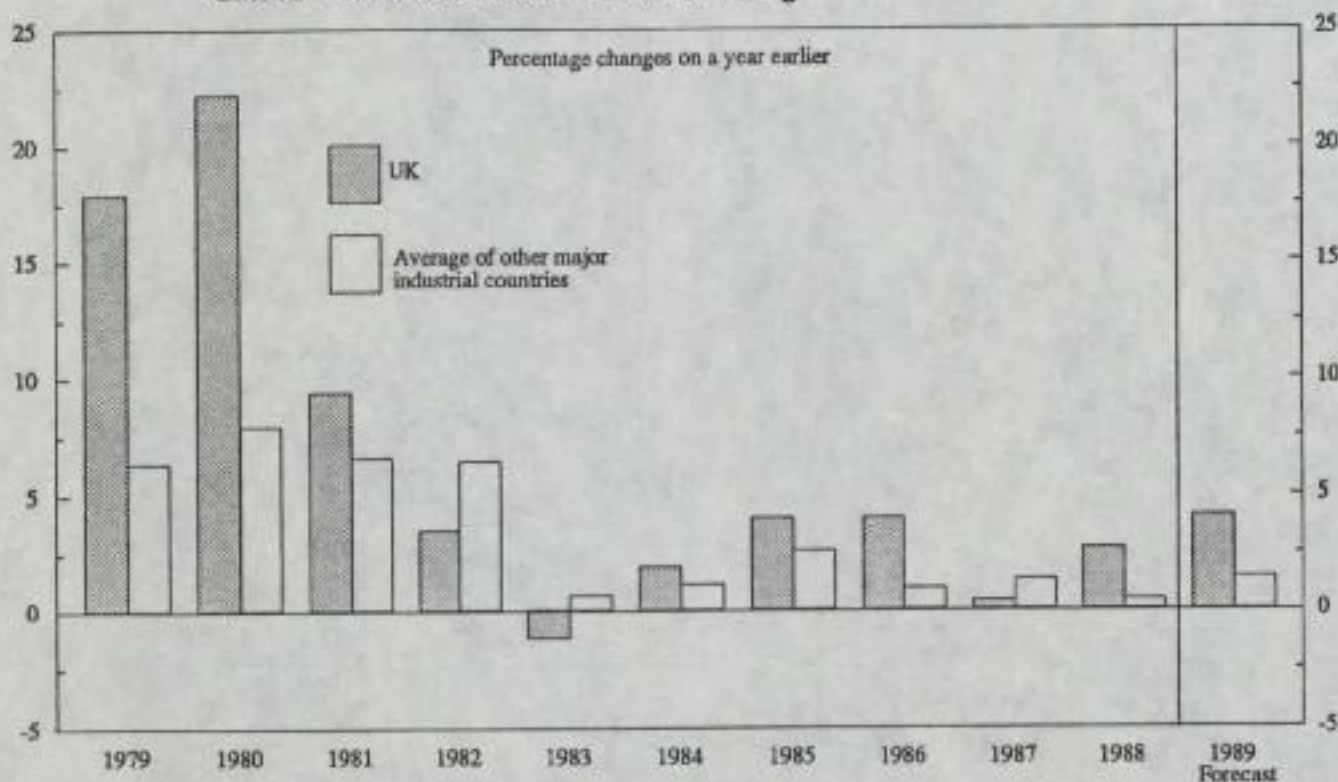
<sup>1</sup>US, Japan, Germany, France, UK, Italy, and Canada.

**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 remains above the average between 1984 and 1988.

## Trade and the balance of payments

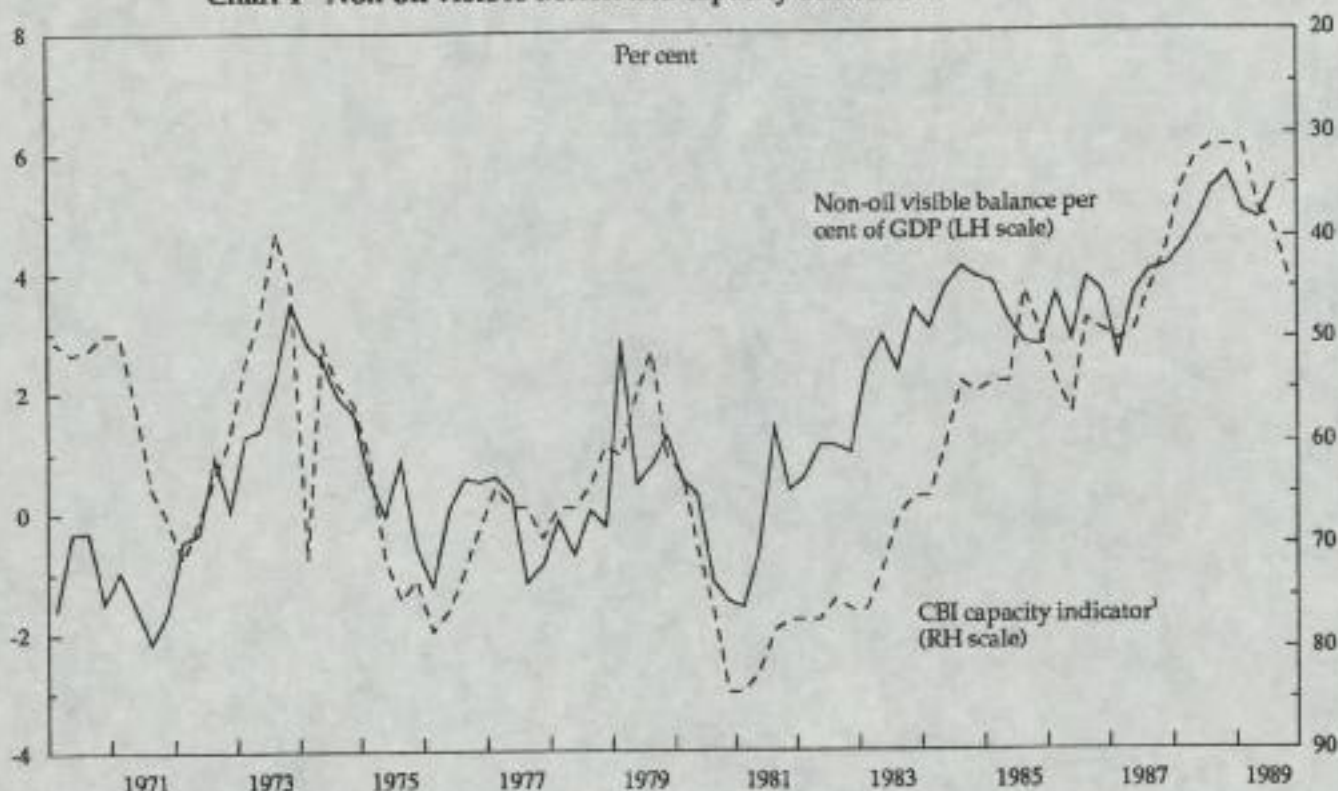
**Relative costs** 14 Unit labour costs in manufacturing have risen more rapidly in the UK than in other major industrial countries over the past two years. Cost competitiveness remains more favourable than in 1985, before the fall in world oil prices. But, with unit labour costs forecast to grow slowly in other major countries, the maintenance of the UK's 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 has fallen slightly as a percentage of GDP since the end of 1988, as domestic demand has slowed and capacity pressures have begun to ease.

Chart 4 Non-oil visible deficit and capacity utilisation



<sup>1</sup> 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 between the growth of non-oil exports over the past year, and the much slower growth of total exports.

Table 2 Visible trade

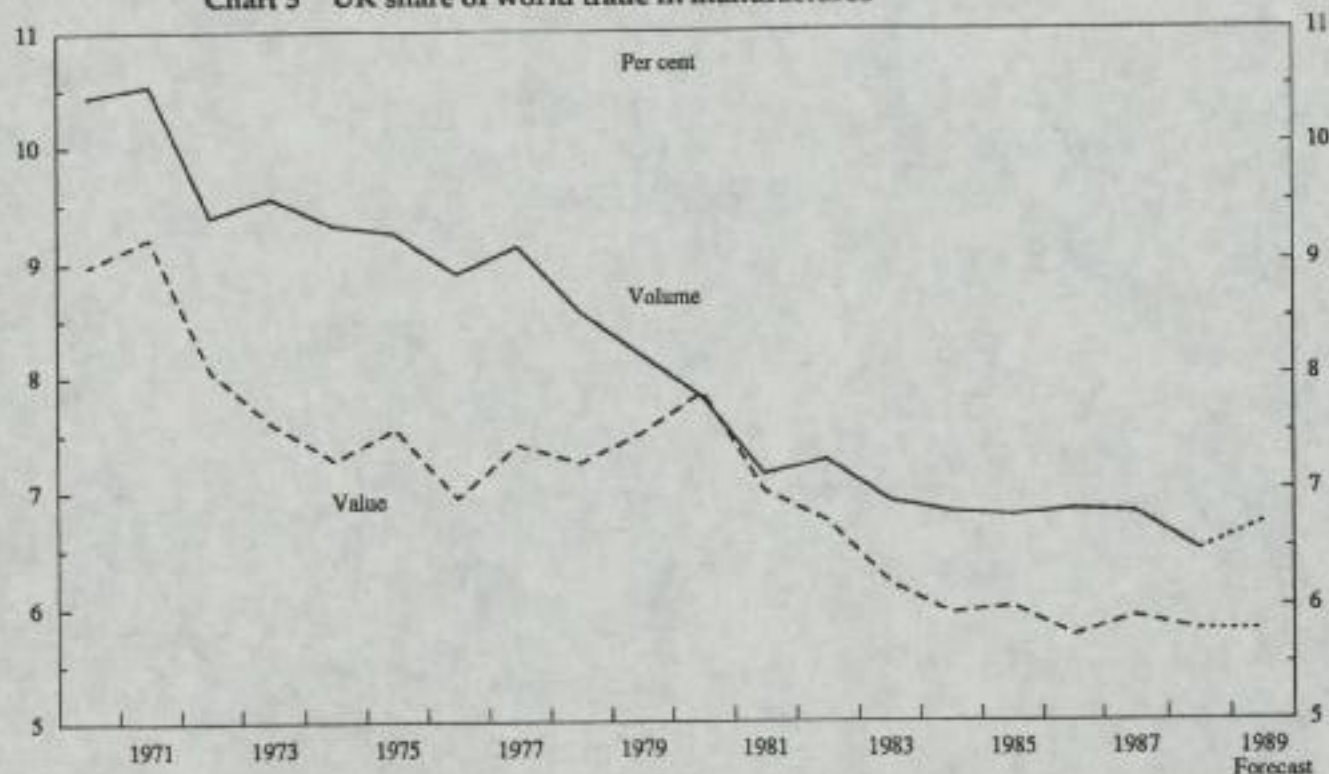
	Percentage changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade <sup>1</sup>	Export volume	Import volume	Terms of trade <sup>1</sup>
1988	1 1/2	13	3/4	3 1/4	14 1/4	2
1989 Partly forecast	5	10 1/4	4 1/2	11 1/2	10 1/4	3/4
1990 Forecast	7 1/2	2 1/4	-1/2	6 1/2	2 1/2	0

<sup>1</sup> 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.

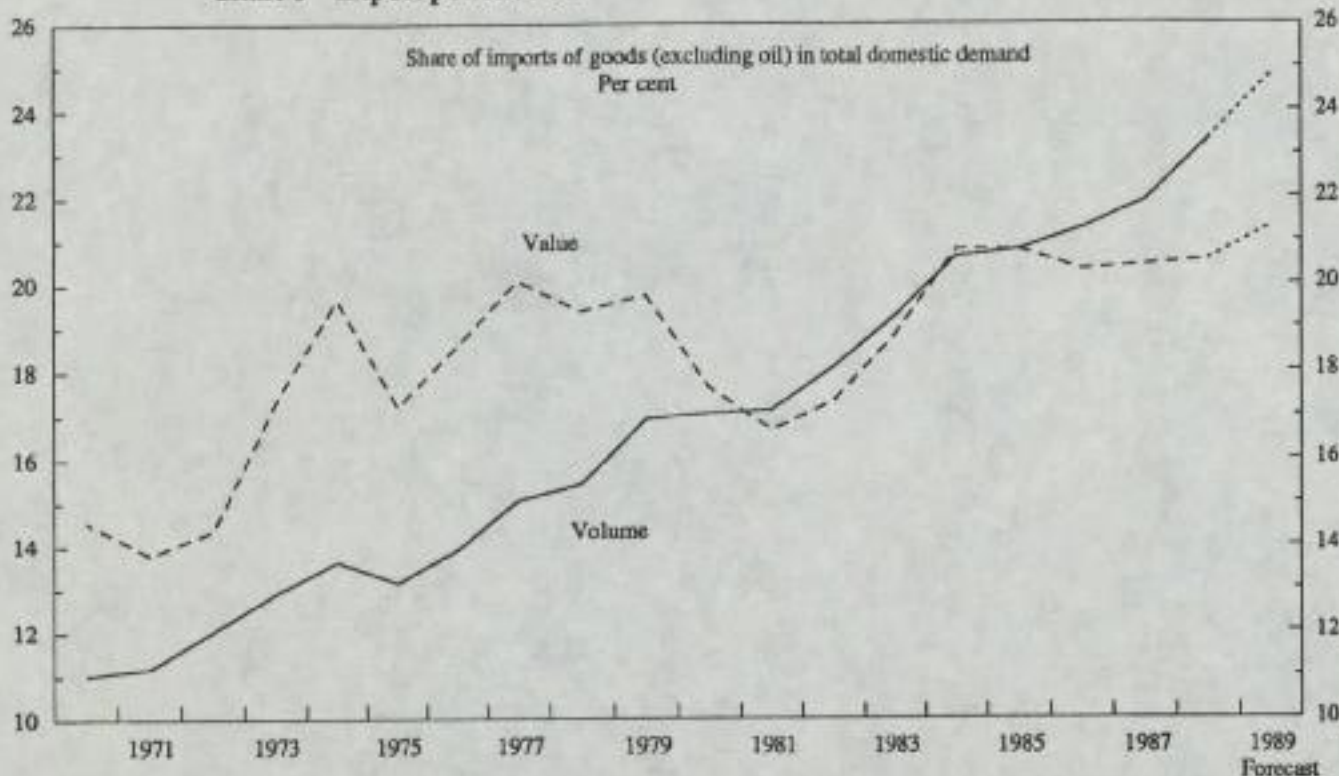
Chart 5 UK share of world trade in manufactures



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 1/2 per cent, in line with the forecast growth of world trade.

19 Non-oil import volume growth has slowed in 1989 as demand and capacity pressures have eased, but by less than forecast in the FSBR. 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, capital and intermediate goods have been the fastest rising categories of imports over the past year. There are signs that the rate of growth of car sales has eased; high imports in advance of the August registration peak probably contributed to rising stock levels.

Chart 6 Import penetration



20 Non-oil import volume growth is forecast to slow sharply, to 2 1/2 per cent in 1990, as companies cut their expenditure and as domestic demand levels off. Capacity pressures will continue to ease 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. Oil production in 1989 is likely to be slightly below the bottom of the Department of Energy's Brown Book range. This reflects further disruptions, particularly Cormorant Alpha and others affecting the Brent system, and 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 1/2 billion in 1989, compared with £ 1/2 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 is forecast to fall 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 means that estimates of net overseas assets are subject to a very 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 <sup>1</sup>
1990 Forecast	-15	-8	2	6	-15	

<sup>1</sup> 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 £½ billion on net exports, 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.

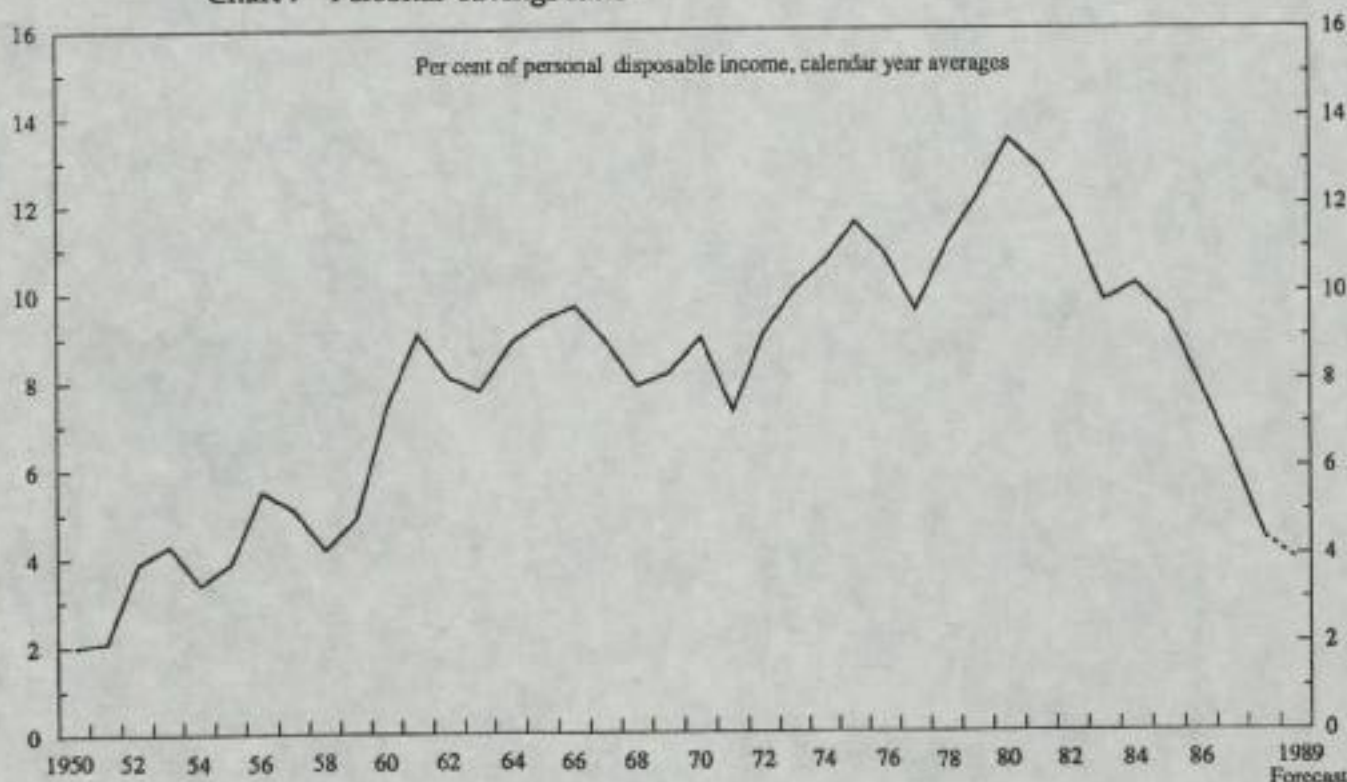
30 Non-oil output is estimated to have grown by 5 per cent in 1988. Growth was strong throughout the economy with both manufacturing and construction output rising by about 7 per cent, and output of the service industries by 5 per cent.

#### 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.

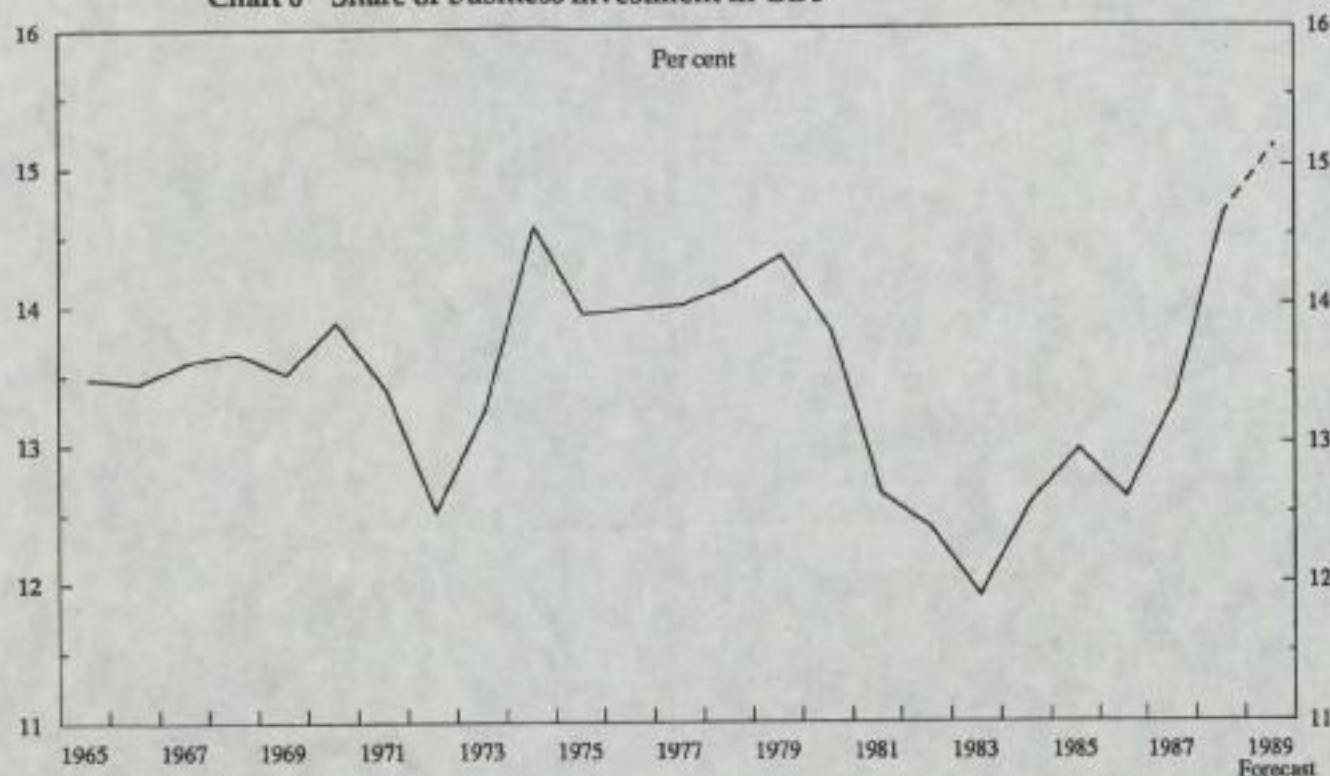
32 The sharp rise in consumer spending between 1985 and 1988 may have been associated with large increases in wealth, notably housing wealth, and was partly financed by increased borrowing, including mortgage borrowing. As a result households are now estimated to have become substantial net payers of interest. They are expected to reduce consumer spending growth to 1 ½ per cent in 1990, both because of the need to service existing debt and because of 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 savings 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 1/2 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 around 5 per cent in 1990 as companies also adjust to tighter monetary conditions and slower growth of domestic demand.

**Chart 8 Share of business investment in GDP**



**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**

	Weight in 1988	Percentage changes on a year earlier		
		1988	Forecasts	
			1989	1990
Business <sup>1</sup>	68	17 1/2	9 1/4	4 3/4
Private dwellings <sup>2</sup>	21	10 1/4	-10	-5 1/2
General government <sup>3</sup>	11	-3 1/2	9 3/4	-2
<b>Total fixed investment</b>	<b>100</b>	<b>13 1/4</b>	<b>5 1/4</b>	<b>2 1/4</b>

<sup>1</sup> includes investment by public corporations.

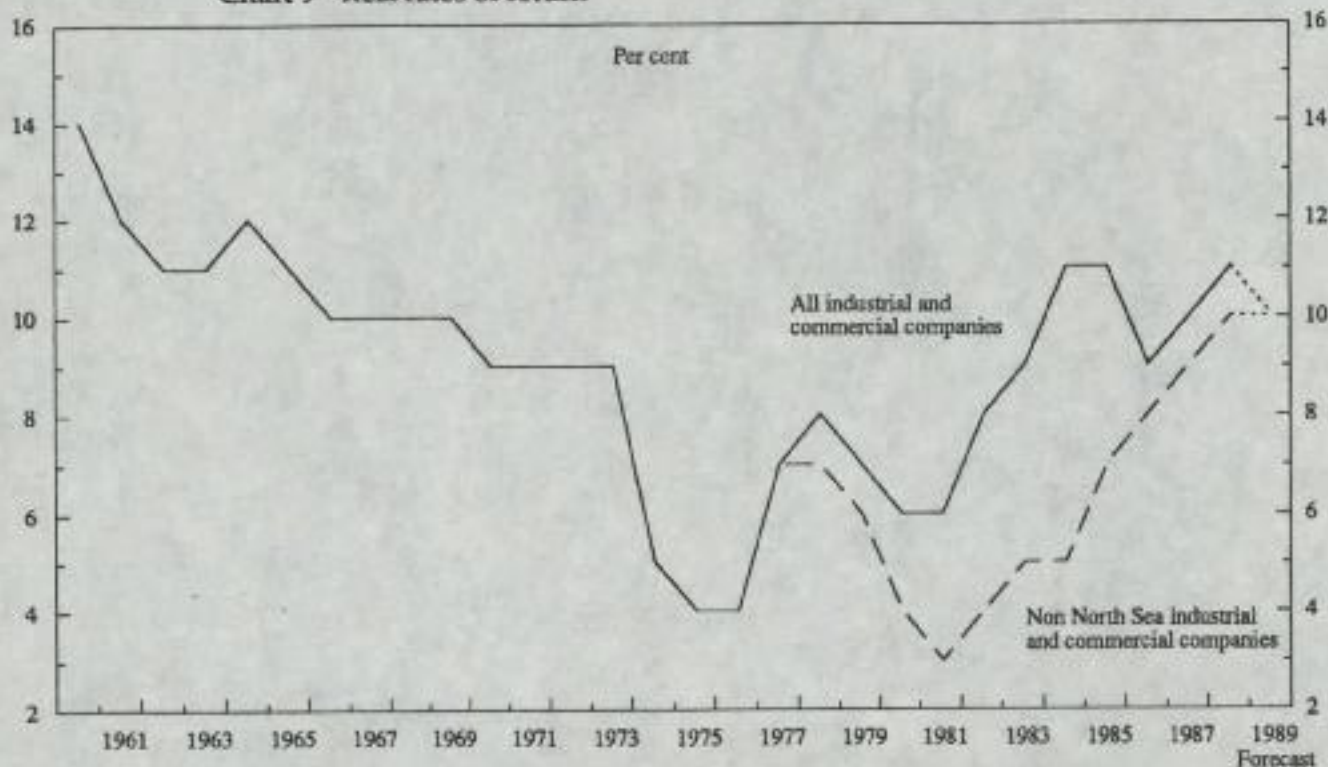
<sup>2</sup> includes purchases less sales of land and existing buildings for the whole economy

<sup>3</sup> 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 £2.3 billion (at 1985 prices) of the £3.3 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 for the seventh successive year in 1988, to levels not seen 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 2.5 shows that total saving as a share of GDP has remained unchanged since 1985, with rising public sector saving offsetting a fall in private sector saving.

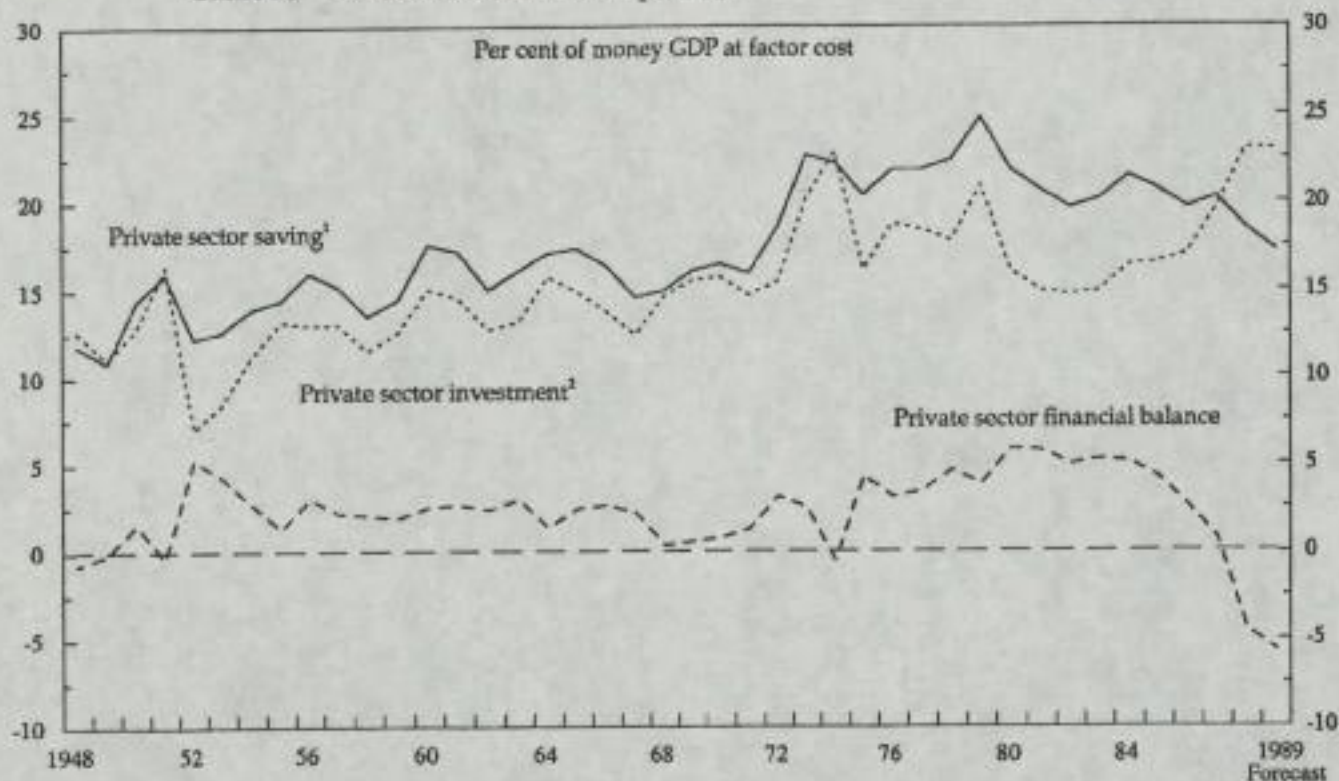
Table 5 Saving by sector<sup>1</sup>

	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	12.4	15.1	5.0	20.1

<sup>1</sup>net of stock appreciation, but including capital transfers

**Private sector financial position** 38 The fall in private sector saving since 1985 has, unprecedentedly, coincided with a sustained increase in investment. As a result, the private sector has 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.

**Chart 10 Private sector financial position**



<sup>1</sup> before providing for depreciation, stock appreciation and additions to reserves.

<sup>2</sup> 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 slow down further, 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 because of 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

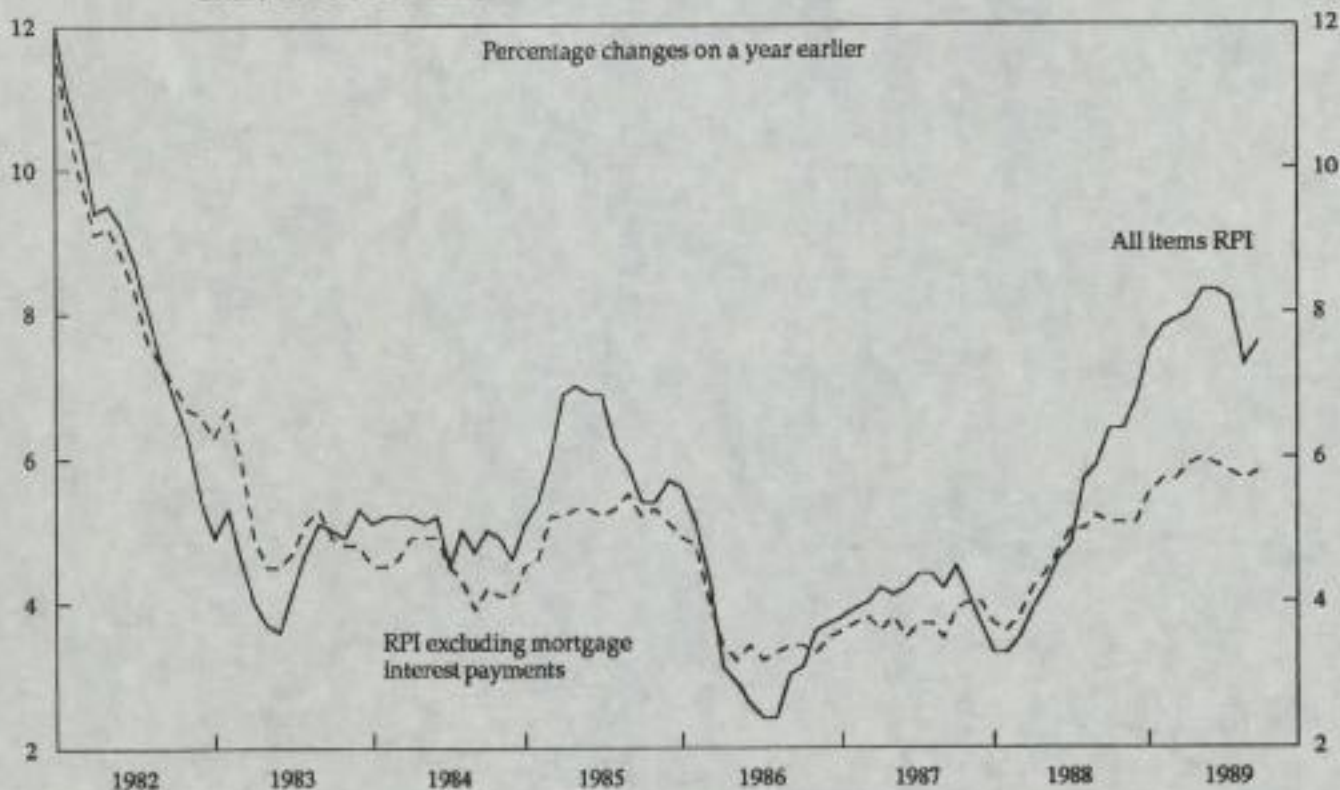
	Percentage changes on a year earlier					
	1988		1989		1990	
	Forecasts					
Domestic demand	7 ¼		3 ¾		0	
Exports of goods and services <sup>1</sup>	¾	(2)	4 ½	(9)	6 ¼	(5 ½)
Imports of goods and services <sup>2</sup>	12 ¼	(13)	9	(9)	1 ½	(1 ½)
Gross domestic product <sup>2</sup>	4 ¼	(5)	2	(3)	1 ¼	(¾)
Manufacturing output	6 ¾		4 ½		1 ½	

<sup>1</sup> non-oil shown in brackets<sup>2</sup> 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 has been mainly the result of 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 picked up a little in early 1989, but has since remained stable. It is likely to average close to 5 1/2 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 increase in underlying average earnings in the whole economy rose to 9 1/2 per cent in March 1989 and fell to 8 3/4 per cent for the period June to August. The increase in underlying average earnings in the manufacturing sector has averaged 8 3/4 per cent in the first eight months of 1989. The fall in whole economy earnings growth since March is accounted for by declining bonus payments, especially 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 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 slowdown in demand.

Table 7 Retail and producer output price inflation

	Weight in 1989	Percentage changes on a year earlier		
		1988Q4	Forecast	
			1989Q4	1990Q4
Retail prices: all items	100	6 1/2	7 1/2	5 3/4
of which:				
food	15 1/2	4	6 3/4	5 1/2
nationalised industries	4 1/2	7 1/2	7 1/4	7 3/4
housing	17	16 1/2	17 1/2	11
other	63	4 3/4	5	4 1/4
<b>Producer output prices<sup>1</sup></b>		5	5 1/2	4

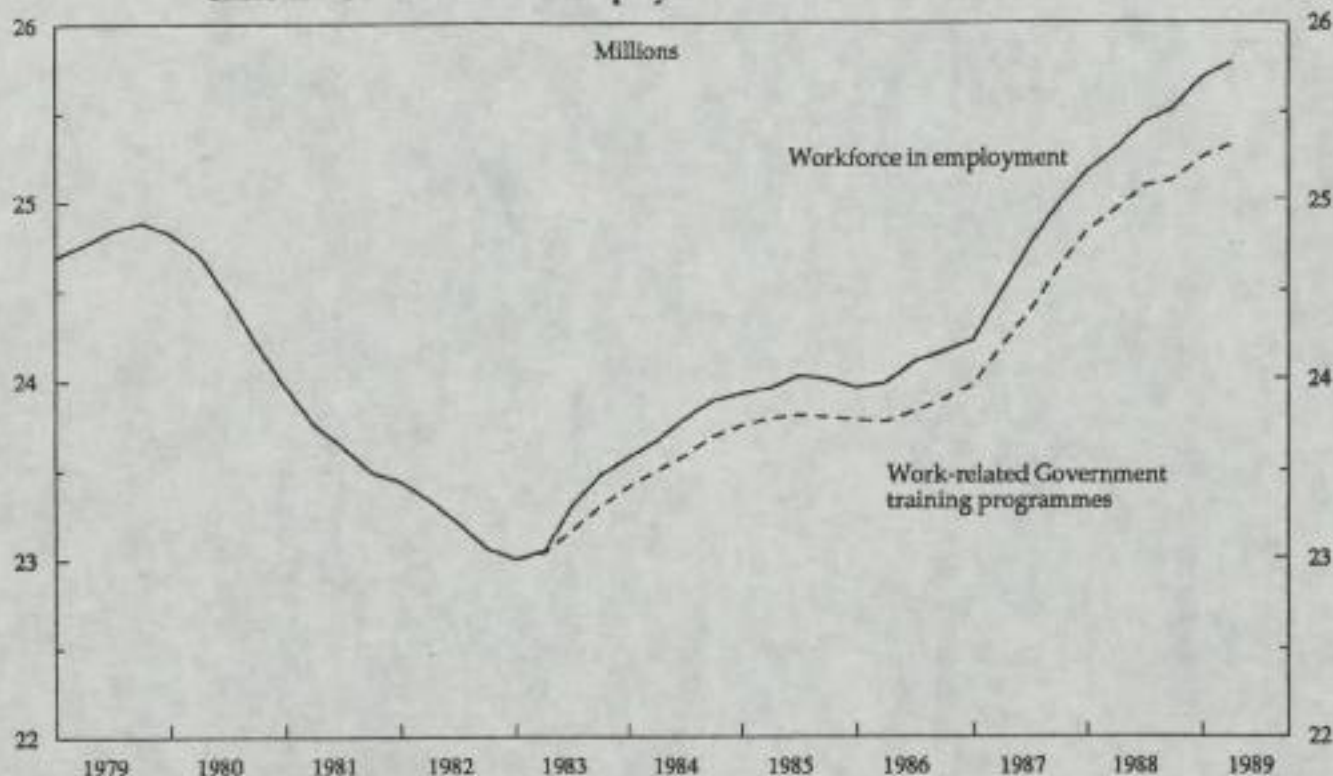
<sup>1</sup> excluding food, drink and tobacco

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 490,000. Since 1983 there has been an increase of nearly 3 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 since 1979 than in any other major industrialised economy.

Table 8 Manufacturing output per head

	Average annual per cent changes		
	1960-1970	1970-1980	1980-1988
UK	3	1½	5¼
US	3½	3	4
Japan	8¾	5¼	3
Germany	4	3	2¼
France	4½	3¼	3
Italy	5¼	3	3¾
Canada	3½	3	3½
G7 average	4½	3¼	3½

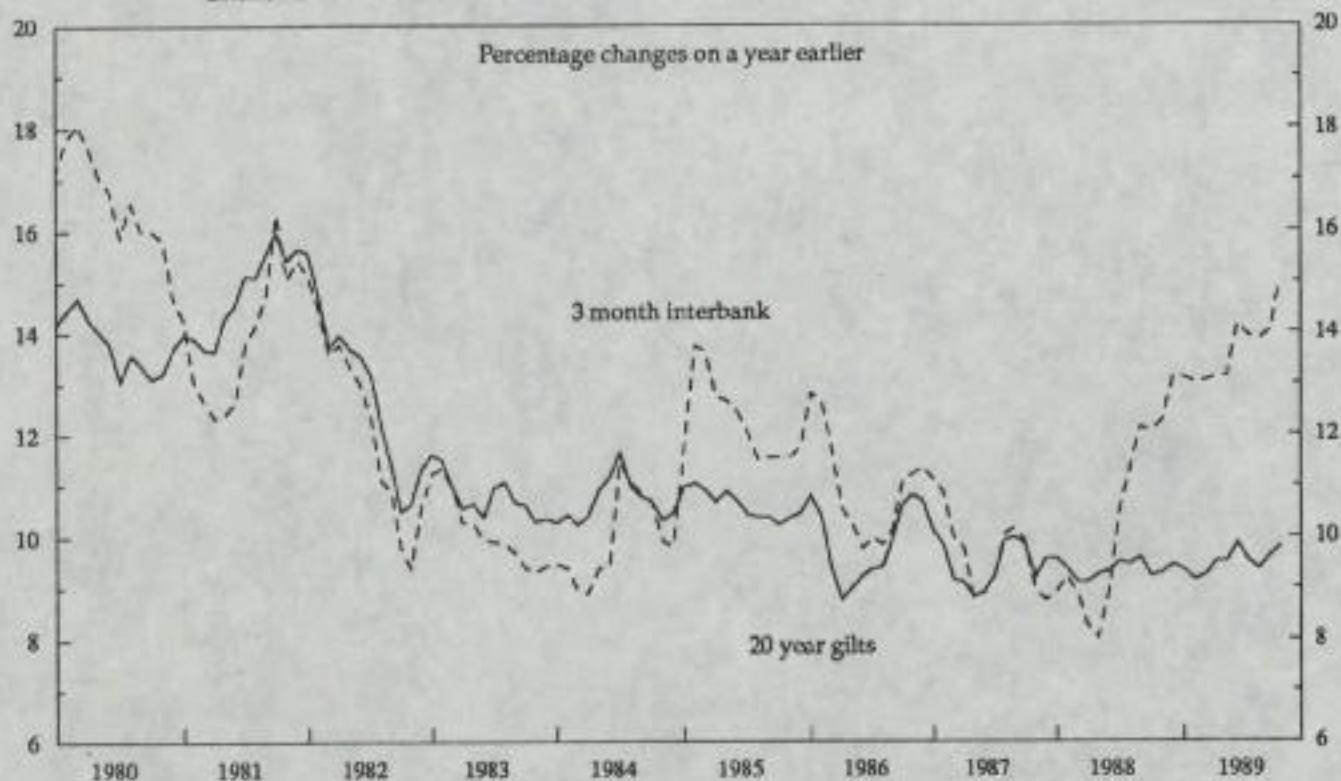


50 By September 1989, seasonally adjusted adult unemployment in the UK had fallen for 38 successive months, by almost 1 1/2 million in total. This fall in unemployment has been mainly attributable to the strong growth of output and employment. Unemployment could level off in the coming months, but its behaviour will depend crucially on the extent to which wage settlements moderate.

### Financial developments

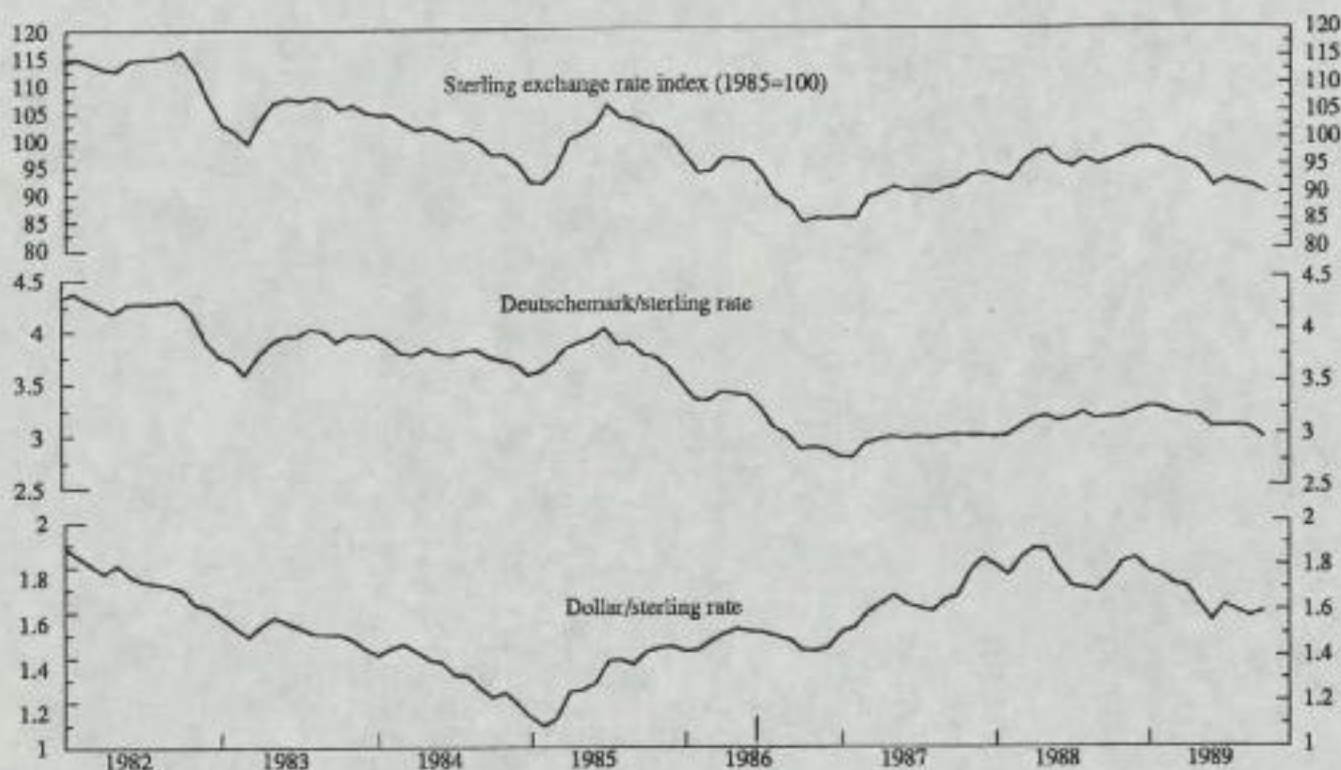
**Interest rates** 51 Monetary conditions have tightened in 1989. Following rises in the second half of 1988, short-term interest rates have risen from 13 per cent in early 1989 to 15 per cent in October. Long term interest rates have been relatively stable.

Chart 13 Interest rates



**Exchange rates** 52 The sterling effective exchange rate and the rate against the Deutschmark have fallen in recent months, following rises over the previous two years. This brings them back close to their average levels in the first half of 1987.

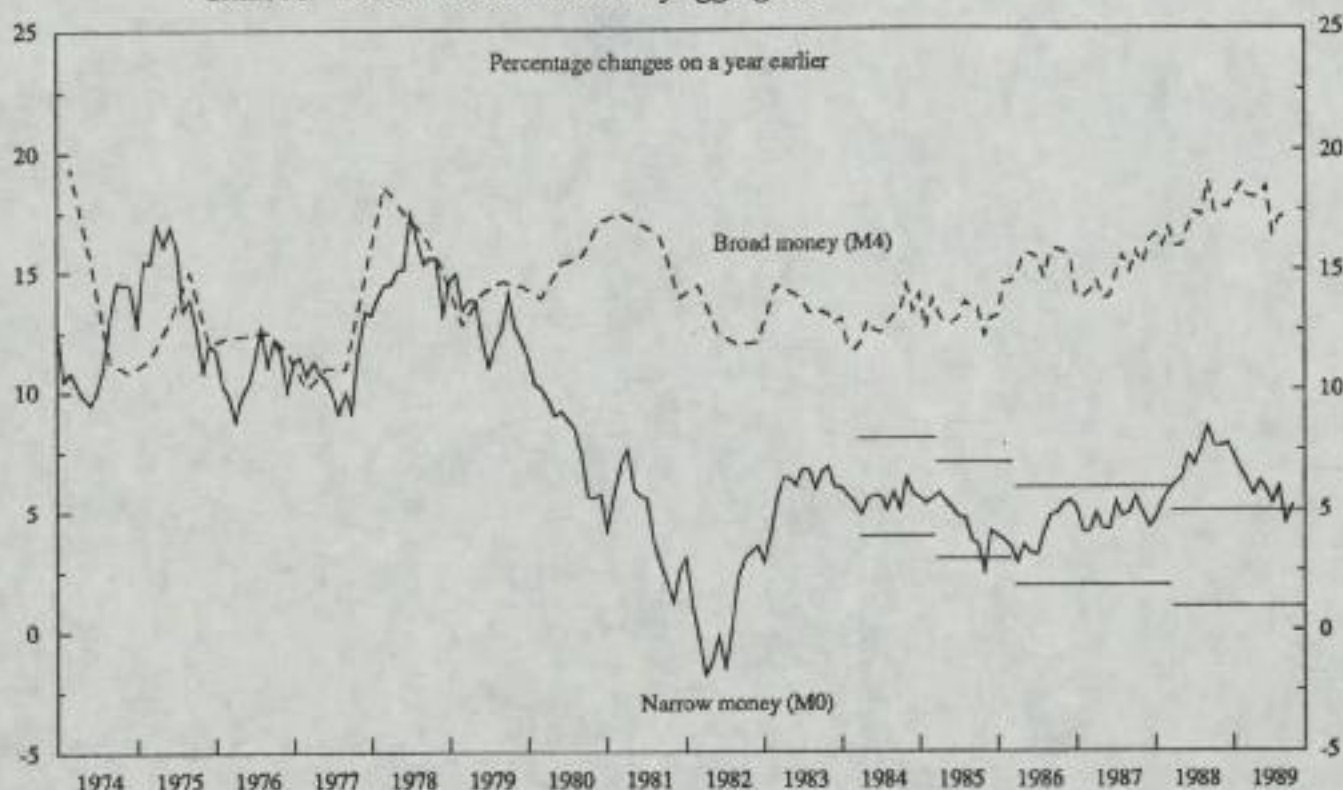
Chart 14 Sterling exchange rates



**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 Outturn	1989-90	
		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
<b>General government expenditure</b>	<b>178.6</b>	<b>194.3</b>	<b>196.3</b>
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, largely 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 Largely offsetting these upward revisions to taxes is 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 Outturn	1989-90	
		Budget forecast	Latest forecast
Taxes on income, expenditure and capital <sup>1</sup>	144.3	156.9	159.7
National insurance and other contributions <sup>2</sup>	33.0	34.3	32.7
Interest and dividends	6.5	7.0	7.2
Other receipts including accruals adjustments <sup>2</sup>	6.2	8.1	7.4
<b>Total receipts</b>	<b>190.0</b>	<b>206.4</b>	<b>207.0</b>
of which:			
North sea revenues	3.2	2.9	2.6

<sup>1</sup> includes community charge

<sup>2</sup> figures have been adjusted to reflect a change to the treatment of personal pensions which the CSO will make when publishing 1989Q3 national accounts

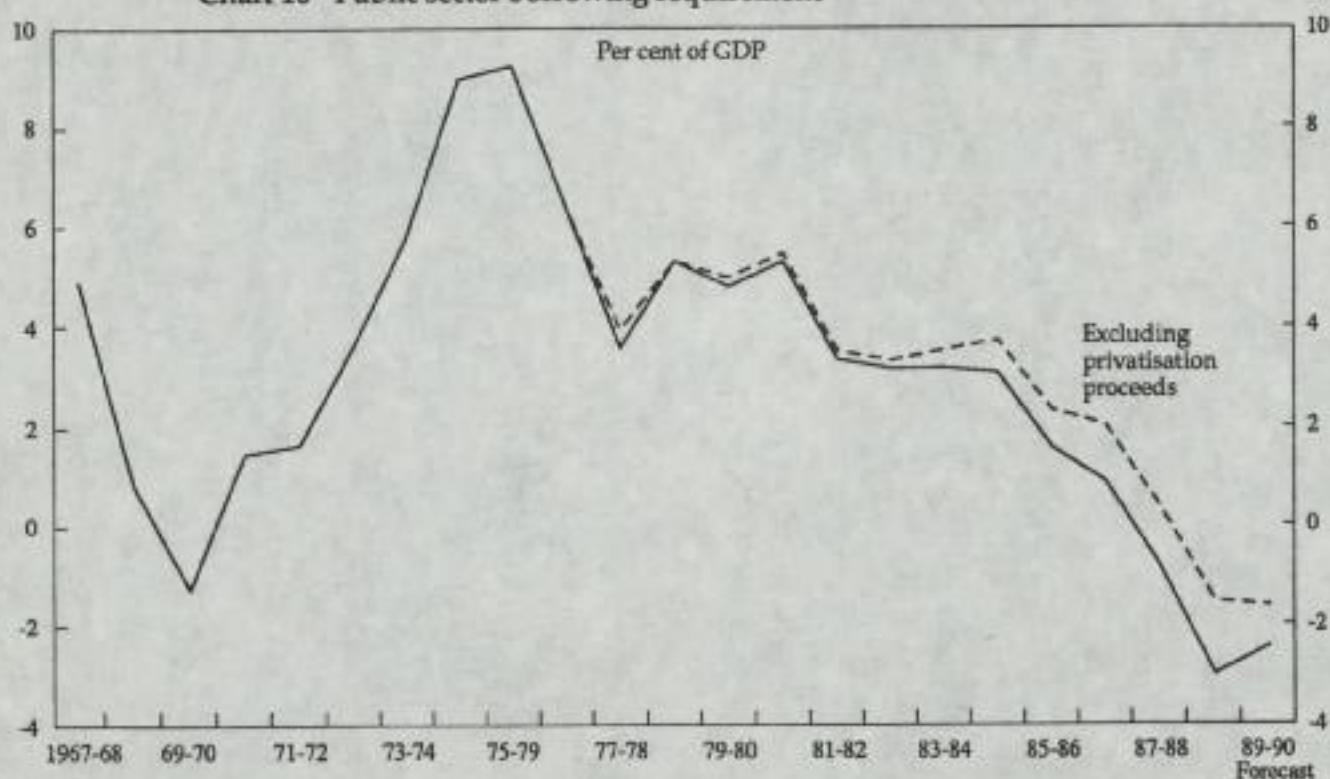
59 The PSDR in 1988-89 was £14 ½ billion, slightly higher than estimated in the 1989 FSBR. The PSDR in the first half of 1989-90 was a net repayment of £½ billion, a £3 billion smaller repayment than in the first half of last year. Excluding privatisation proceeds the PSDR was £1 billion lower in the 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. With the receipts relatively high in the second half of the year, 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 Outturn	1989-90	
		Budget forecast	Latest forecast
General government expenditure	178.6	194.3	196.3
General government receipts	190.0	206.4	207.0
General government debt repayment	11.4	12.1	10.8
Public corporations market and overseas debt repayment	2.9	1.7	1.8
<b>PSDR</b>	<b>14.3</b>	<b>13.8</b>	<b>12.6</b>
PSDR as per cent of GDP	3	2 $\frac{3}{4}$	2 $\frac{1}{2}$
PSDR excluding privatisation proceeds as per cent of GDP	1 $\frac{1}{2}$	1 $\frac{3}{4}$	1 $\frac{1}{2}$

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 13 sets out the average absolute errors over the last ten years on forecasts made at this time of year.

63 The forecast presented here uses published CSO estimates of GDP up to 1989Q2, including the adjustments to expenditure components - consumers' expenditure, fixed investment, stockbuilding and net exports of services - which were made to bring growth in the expenditure measure of GDP in 1988 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 short-term GDP movements. But these adjustments are judgemental and imply considerable uncertainty over 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 year earlier unless otherwise stated			
	1988	Forecast		Average errors from past forecasts <sup>1</sup>
		1989	1990	
<b>GDP and domestic demand at constant prices</b>				
Domestic demand	7 ¼	3 ¾	0	1 ¼
of which:				
Consumers' expenditure	6 ¾	3 ¾	1½	1 ¼
General government consumption	½	-¼	¼	½
Fixed investment	13 ¼	5 ¼	2 ¼	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ½	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ½	3
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	6 ¾	4 ¼	1 ½	2
<b>Balance of payments current account (£ billion)</b>	-14½	-20	-15	5 ¾
<b>Inflation</b>				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year) <sup>2</sup>	7	7	5	2
<b>Money GDP at market prices (financial year)<sup>2</sup></b>				
£ billion	10 ¾	8 ½	6 ¾	2 ½
	476	517	552	
<b>PSDR (financial year)</b>				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

<sup>1</sup> 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.

<sup>2</sup> 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 14 Gross domestic product and its components<sup>1</sup>**

£ billion at 1985 prices seasonally adjusted

	Consumers' expenditure	General government consumption <sup>2</sup>	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	5.5	547.7	139.6	59.0	1.8	351.0	114.8
1990	271.3	76.8	81.4	125.9	-0.3	555.1	141.8	59.4	1.8	355.7	116.3
1988 H1	127.2	38.3	37.2	57.0	-0.3	259.5	61.6	28.2	0.8	170.6	111.5
1988 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
1989 H2	134.4	38.2	40.2	60.2	2.1	275.2	70.5	29.5	0.9	176.1	115.2
1990 H1	134.9	38.3	40.7	62.3	-0.2	276.0	70.6	29.5	0.9	176.8	115.6
1990 H2	136.4	38.5	40.8	63.6	-0.1	279.1	71.2	29.9	0.9	179.0	117.0

Percentage change on previous year<sup>3</sup>

1988	6 3/4	1/2	13 1/4	3/4	3/4	5 3/4	12 1/4	3	1/4	4 1/4	4 1/4
1989	3 3/4	-1/4	5 1/4	4 1/2	1/2	4	9 1/4	4	0	2	2
1990	1 1/2	1/4	2 1/4	6 1/4	-1 1/2	1 1/4	1 1/2	1	0	1 1/4	1 1/4

<sup>1</sup> 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.

<sup>2</sup> The growth of general government consumption is reduced by about 1 per cent in 1989 and 1/4-1/2 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.

<sup>3</sup> For stockbuilding and the statistical adjustment, changes are as a percentage of GDP.



## 4 Tax revenue ready reckoner

4.01. The tables below show the effects of various illustrative tax changes on tax receipts in 1990-91 and 1991-92.

4.02. The effects of tax changes on tax receipts depend on economic variables, such as prices, earnings and consumers' expenditure. The estimates shown are consistent with the economic forecast given in Chapter 2.

4.03. An illustrative rate of inflation of  $7\frac{1}{2}$  per cent has been used to show the effects of indexation and revalorisation in 1990-91. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1989.

4.04. The tables show estimates of the direct effects of tax changes on tax receipts. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR.

### Indexation of allowances, thresholds and bands for 1990-91

4.05. Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1990-91 after  $7\frac{1}{2}$  per cent indexation. Estimates of the revenue effects of indexation are shown in Table 4.4. For income tax, rounding of the indexed amounts follows the rules laid down in the 1980 Finance Act, and for inheritance tax and capital gains tax those laid down in the 1982 Finance Act.

4.06. Table 4.1 shows the structure of income tax allowances as it will be after the introduction of independent taxation of husband and wife in 1990. Husbands and wives will each get the same personal allowance that a single person will receive, and a wife's income (including her investment income) will be taxed separately from that of her husband. In addition, there will be a married couple's allowance which will go to the husband in the first instance, but any unused part of it will be transferable to the wife. For 1989-90 the figures shown are those which would have applied under the new structure if it had been introduced in 1989-90 at levels corresponding to the actual allowances that year.

### Direct revenue effects of illustrative changes in income tax and corporation tax

4.07. Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax from April 1990. The income tax allowances are those to be introduced under independent taxation, and changes in these and the basic rate limit are from an indexed base.

4.08. The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, the basic rate limit tends to fall as the allowances or limit rises. For this reason, effects are given for different percentage changes and for reductions as well as increases in allowances.

4.09. The total cost of a group of income tax allowances changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in the basic or higher rate, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Table 4.1 Income tax

	£	
	1989-90	1990-91
Allowances:		
Personal allowance	2 785	2 995
Personal allowance (age 65-74)	3 400	3 660
Personal allowance (age 75 and over)	3 540	3 810
Married couple's allowance	1 590	1 710
Married couple's allowance (age 65-74)	1 985	2 135
Married couple's allowance (age 75 and over)	2 025	2 185
Additional personal and widow's bereavement allowance	1 590	1 710
Aged income limit	11 400	12 300
Income tax rates		
	Bands of taxable income	
	£	
Per cent	1989-90	1990-91
25	0-20 700	0-22 300
40	over 20 700	over 22 300

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1989-90	1990-91
Nil	0-118	0-127
40	over 118	over 127

Table 4.3 Capital gains tax

	£	
	1989-90	1990-91
Annual exempt amount:		
Individuals	5 000	5 400
Trusts	2 500	2 700

Table 4.4 Costs of indexation for 1990-91

	£ million	
	1990-91	1991-92
Indexation of income tax allowances and basic rate limit <sup>1</sup>	1 610	2 275
Of which:		
Increases in main allowances	1 400	1 905
Increase in the basic rate limit <sup>2</sup>	210	370
Indexation of inheritance tax threshold	30	70
Indexation of capital gains exempt amounts	—	10

<sup>1</sup> Cost includes the consequential effects on capital gains tax.<sup>2</sup> Additional cost after previous change has been introduced.

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax<sup>1</sup>

	£ million	
	1990-91 Cost/yield	1991-92 Cost/yield
<b>Income tax</b>		
<i>Rates</i>		
Change basic rate by 1p <sup>2</sup>	1 500	1 900
Change higher rate by 1p	130	270
<i>Allowances<sup>3</sup></i>		
Change personal allowance by £100	465	635
Change age-related personal allowances <sup>4</sup> by £100	35	50
Change married couple's allowance by £100 <sup>5</sup>	215	295
Change age-related married couple's allowances <sup>4</sup> by £100	15	22
Change aged income limit by £200	2	4
Change all main allowances by 1 per cent <sup>6</sup>	180	250
Change all main allowances by 10 per cent: <sup>6</sup>		
increase (cost)	1 775	2 475
decrease (yield)	1 850	2 550
<i>Basic rate limit</i>		
Change basic rate limit by 1 per cent <sup>6</sup>	25	44
Change basic rate limit by 10 per cent: <sup>6</sup>		
increase (cost)	225	415
decrease (yield)	275	495
<i>Allowances and basic rate limit</i>		
Change all main allowances and basic rate limit by 1 per cent <sup>6</sup>	205	295
Change all main allowances and basic rate limit by 10 per cent: <sup>6</sup>		
increase (cost)	2 000	2 875
decrease (yield)	2 125	3 050
<b>Corporation tax<sup>7</sup></b>		
Change full rate by 1 percentage point	390	570
Change small companies' rate by 1 percentage point <sup>8</sup>	35	45

<sup>1</sup> The estimated revenue effects of changes in the basic rate of income tax and in the main allowances of 10 per cent are rounded to the nearest £25m; other effects over £50m are rounded to the nearest £5m; effects of less than £50m are rounded to the nearest £1m. The figures for income tax changes include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 1990.

<sup>2</sup> Including the effects of the change on receipts of advance corporation tax and on subsequent liability to mainstream corporation tax.

<sup>3</sup> The full year revenue effect of changing all the income tax allowances by the same proportion is broadly the same under independent taxation as under the present regime, but because of the reform of the structure of allowances the effects of changing individual allowances are not directly comparable with previous figures.

<sup>4</sup> Allowances for those aged 65-74 and aged 75 and over.

<sup>5</sup> Figures include revenue effects of changing additional personal allowance and widow's bereavement allowance by £100.

<sup>6</sup> Percentage changes are calculated with reference to 1989-90 levels.

<sup>7</sup> Assessment to corporation tax normally relates to the preceding year. These estimates are, therefore, the changes to revenue that would occur if the changed rates were applied to incomes from 1 April 1989.

<sup>8</sup> These figures ignore effects arising from the imputation system.

**Indirect Taxes 4.10.** Table 4.6 shows estimates of the effects of changes in excise duties from April 1990. The first part shows the total extra revenue (including VAT) if the individual duties were to be increased by 7½ per cent, together with the price increase that would result (after allowing for consequential VAT). The second part shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.

**4.11.** Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.

**4.12.** Within limits the illustrative changes for specific duties can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively larger, and scaled estimates will be less reliable.

**Table 4.6 Revenue effects of indirect tax changes<sup>1</sup>**

	Current level of duty on typical items	7½% Revalorisation <sup>2</sup>		Illustrative changes				
		Price change <sup>3</sup>	£m yield in <sup>4</sup>		Price change <sup>3</sup>	Associated percentage change in duty	£m cost/yield <sup>4</sup>	
			1990-91	1991-92			1990-91	1991-92
Beer (pint)	19.4p	1.7p	155	180	1p	4.5	90	110
Wine (70 cl bottle of table wine) <sup>5</sup>	71.7p	6.2p	50	60	5p	6.1	45	50
Spirits (bottle)	£4.73	40.8p	80	90	10p	1.8	20	20
Cigarettes (20 kingsize) <sup>6</sup>	96.7p	7.2p	260	295	1p	1.0	35	40
Petrol (gallon) <sup>7</sup>	89.8p	7.8p	465	515	1p	1.0	60	70
Derv (gallon)	78.6p	6.8p	110	115	1p	1.1	15	20
VED (cars and light vans)	£100.00	£7.50	170	190	£1.00	1.0	25	25

<sup>1</sup> These are estimated on the assumption that total consumers' expenditure at factor cost does not change.

<sup>2</sup> An 'across the board' revalorisation by 7½ per cent (including the minor duties not shown above) would yield about £1360m in 1990-91 and £1515m in 1991-92 and the impact on the RPI would be to raise it by 0.5 per cent.

<sup>3</sup> The price change is assumed to equal the change in duty plus the consequential change in VAT except in the case of VED where VAT is not payable.

<sup>4</sup> Assuming implementation on 1 April 1989.

<sup>5</sup> Revenue effects include all wines.

<sup>6</sup> The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.

<sup>7</sup> Weighted average of leaded and unleaded petrol at current level of sales. Unleaded petrol currently bears a rate of duty which is 12.4 pence per gallon less than that on leaded, and the revenue effects given here assume no change in this differential save for that arising from revalorisation.

**Table 4.7 VAT<sup>1</sup>**

	£m cost/yield in	
	1990-91	1991-92
1% change in rate of VAT <sup>2</sup>	1515	2070

<sup>1</sup> The revenue effects of changes in the rate of VAT are estimated on the assumption that total consumers' expenditure at factor cost does not change.

<sup>2</sup> Assuming implementation on 1 April 1990.

# 3 National Insurance Contributions

X 3.01 The Secretary of State for Social Security has conducted his annual review of national insurance contributions, as required by the provisions of the Social Security Act 1975. Full details were set out in a statement by the Secretary of State on ~~15~~ November 1989. The main proposals are as follows:

- the Class 1 insurance rates for employees and employers should remain unchanged for 1990-91.
- the lower earnings limit should be increased from April 1990 from the present level of £43 a week to £46 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £325 a week to £350 a week.
- the earnings limits for the employers' reduced rate brackets should also be increased from £75, £115 and £165 a week to £80, £125 and £175 a week

This would give the following structure of national insurance contributions:

Weekly earnings	Employees amount paid on earnings up to £350 per week	Employers percentage NIC rate on all earnings
Below £46	0	0
£46 to £80	2% of £46 plus 9% of earnings between £46 and £350	5
£80 to £125		7
£125 to £175		9
£175 to £350		10-45
Above £350		10-45

57 3.02 The necessary order~~f~~ will be laid shortly with a report by the Government Actuary on the likely effect of the changes on the National Insurance Fund. In accordance with normal practice, the Government Actuary has been provided with working assumptions for use in preparing his report. These assumptions, which are not forecasts or predictions, will be summarised in his report and include the following:

- 17
- the number of unemployed (GB) averages 1.6<sup>7</sup> million in 1989-90 and 1.75 million in 1990-91
  - the ~~increase in average earnings is expected to decline from about 9½ per cent between financial years 1988-89 and 1989-90 to about 8½ per cent between financial years 1989-90 and 1990-91.~~ <sup>rise by</sup> Figures for settlements are of course lower than these earnings figures in both years
- 7 / 1 / 1 / 17

The report will also allow for an uprating of benefits in April 1990 on the basis of the 7.6 per cent increase in the RPI over the year ending in September 1989, as announced by the Secretary of State on 25th October 1989.

3.03 The estimated effects of the proposed changes are shown in Table 3.1.

Table 3.1 Estimated total payments by employers and employees of national insurance contributions, 1989-90 and 1990-91<sup>1</sup>

	£ million		
	Employers	Employees	Total
National insurance contributions:			
1989-90	[16 220]	[12 880]	[29 100]
1990-91	[17 980]	[12 770]	[30 750]
Total change	[1 760]	[- 110]	[1 650]
<i>of which:</i>			
Change in contributions from increased earnings, etc. <sup>2</sup>	[2 010]	[- 230]	[1 780]
Change in contributions from increase in earnings limits	[- 250]	[120]	[- 130]

<sup>1</sup> Figures are rounded to the nearest £ 10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-rating) (No. 2) Order 1989. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include NHS Allocation contributions. Employers' contributions are net of deductions in respect of statutory sick pay and statutory maternity pay.

<sup>2</sup> Including population and employment changes.

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## AUTUMN STATEMENT - PUBLISHED FORECAST

10(a)

<u>% change at constant prices</u>	1989	1990
Domestic demand	3½	0
Fixed investment	5½	2
GDP (excluding oil)	3	½
GDP	2	1½
<u>Current account deficit</u> £billion	20	15
<u>RPI Q4 on Q4</u>	7½	<del>6</del> 5¾

	1988-89	1989-90	1990-91	1991-92	1992-93
<u>Money GDP</u>					
% increase	10½	8½	7	[6½]	[6]
£ billion	476	516½	552	[587]	[621]
<u>PSDR</u>					
£ billion	14.3	12.6	[10]	-	-
<u>GGE</u> £ billion (ex privatisation proceeds)	185.7	200.0	215.4	227.6	239.5
£ billion increase on previous plans	-	+0.7	+5.4	+6.6	-
% of GDP	39	38½	39	38½	38½

Figures in square brackets are working assumptions



**CHANCELLOR'S AUTUMN STATEMENT: 15 NOVEMBER 1989**

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

2. Cabinet agreed the Government's expenditure plans this morning. I am now able to inform the House of the public expenditure outturn for this year; the plans for the next three years; proposals for national insurance contributions in 1990-91; and the forecast of economic prospects for 1990 required by the 1975 Industry Act.

3. The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I sit down. The printed Autumn Statement will be published next Wednesday.

**PUBLIC EXPENDITURE**

4. Mr Speaker, tight control of public expenditure remains a central element of the Government's economic strategy. Over the past seven years this has led to a sharp fall in the ratio of public spending, excluding privatisation proceeds, to national income. This fall has made it possible to dramatically improve the



Government's finances while still making substantial reductions in tax rates.

5. The ratio of public spending to GDP was nearly 47 per cent in 1982-83. In the current year, it is likely to be  $38\frac{3}{4}$  per cent, significantly below the level expected at the time of the last Autumn Statement.

6. For the next two years the plans I am announcing today show ratios of 39 and  $38\frac{3}{4}$  per cent. These are unchanged from the ratios published in last year's Autumn Statement, and permit a cash increase in general government expenditure in 1990-91 of around £5½ billion. By 1992-93 the ratio is expected to fall further to its lowest level since the mid-1960s.

7. For the current year, the outturn of expenditure is expected to be about £168 billion, £1 billion higher than the original planning total. This partly reflects a lower estimate of privatisation proceeds, but its principal cause is massive overspending by local authorities on both current and capital account. As the House knows, new arrangements for the finance and control of local authority expenditure in England and Wales are being introduced on 1 April 1990. This year's outturn shows how necessary these new measures are.

Central government spending remains firmly under control.

8. The plans for the next three years have been set on the new definition of the planning total which the Government announced in July last year and which was welcomed by the TCSC. This includes central government support for local authorities, but excludes their self-financed expenditure. The composition of general government expenditure is unchanged.

9. For 1990-91, the new planning total has been set at £179 billion and, in the following two years, at £192 billion and £203 billion respectively. Within this the estimates of privatisation proceeds are unchanged, at £5 billion a year. There are also substantial Reserves, rising from £3 billion in 1990-91 to £6 billion and £9 billion in the following two years.

10. The new plans also show continued real growth in spending on the Government's priorities.

11. Thus, between this year and next, spending on the NHS in the UK will rise by £2,400 million. Taking account of income generation and cost savings, this is equivalent to a £2,600 million increase in resources, or

5<sup>1</sup>/<sub>2</sub> per cent in real terms. These plans will finance the improvements in the management of the service that are outlined in the NHS Review. They provide more than £200 million extra for hospital building and other capital expenditure next year. And they will finance a continuing growth in services for patients. They are the clearest possible evidence of the Government's practical commitment to improving the care available in the NHS.

12. There will be substantial increases also for investment in transport. Spending on national roads is planned to double between 1988-89 and 1992-93. Extra financing of £400 million to £500 million a year is being made available for the railways and London Regional Transport, including upgrading the services on Network South-East and the London Underground, to relieve congestion and improve safety, and for rail services for the Channel Tunnel. In total we have added £1.8 billion to the planned spending on transport in the next two years.

13. The plans provide an extra £250 million over the next two years for a new initiative to tackle homelessness, to be announced today by my Rt Hon Friend the Secretary of State for the Environment. And 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.

14. My RHF the Secretary of State for Social Security has already announced real increases in benefits which will help  $1\frac{1}{2}$  million families and  $\frac{1}{2}$  million long-term sick and disabled people.

15. There will be an increase of over £500 million in the total resources available for higher education in 1990-91 compared with this year. This will provide for the continuing growth in the number of students, which has risen by 30 per cent since 1979, and is now at a record level; and cover the cost of the Government's proposals on top-up loans. There is provision for more environmental research, including the new climate change centre and the doubling of our contribution to the UN Environmental Programme.

16. About  $\text{£}1\frac{1}{2}$  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.

17. The new plans include the money central government provides to support local authority spending. The Government's proposals for Aggregate External Finance in 1990-91 were announced to the House in July. Measures have also been announced which will ease the transition from rates to community charge. The cost to the taxpayer of these measures will be nearly £700 million in 1990-91, with further substantial sums in each of the following two years.

18. Capital grants and credit approvals will provide central government support for local authority capital expenditure under the new arrangements. The new plans provide support for a sustained programme of school and college building and modernisation, for local authorities to contribute to the homelessness package, for transport projects, as well as capital spending on other local services, including local roads and environmental improvement.

19. As in the past, these improvements have been possible only through a rigorous selection of priorities; substantial gains in value for money; and a very welcome reduction in the burden of debt interest. They have been found within an affordable level of total public spending. Overall public spending excluding

privatisation proceeds is expected to grow on average by  $1\frac{3}{4}$  per cent a year in real terms throughout the period between 1988-89 and 1992-93. This was the rate of growth projected in last year's Autumn Statement and we have stuck to it. Over the 1970's, a decade of high borrowing and high inflation, as well as high public spending, it grew by 3 per cent a year.

20. Mr Speaker, the Government's new plans demonstrate its continuing commitment to two vital principles. First, to maintain firm control over total spending. And second, to increase efficiency, in order to provide more resources where they are most needed.

21. I should like to congratulate my Rt Hon Friend the Chief Secretary for his skilful and successful conduct of the public spending round.

#### NATIONAL INSURANCE

22. I turn next to national insurance contributions. As the House knows, we have now implemented the reform of employee contributions announced by my Rt Hon Friend the member for Blaby in the Budget. From last month, two of the three step increases in contribution rates have been abolished. This means that employees who get pay

increases taking them just above these steps can no longer lose more in higher contributions than they gain in extra pay. And the initial step at earnings of £43 a week, where people first enter the contribution system, has been more than halved. These measures have reduced contributions by up to £3 a week for nearly 19 million employees and are of particular help to many employees on modest incomes; they have also removed some important disincentives.

23. The usual autumn review of contributions has been conducted in the light of advice from the Government Actuary on the prospective income and expenditure of the national insurance fund, and taking account of the statement on benefits made in October by my Right Hon. Friend the Secretary of State for Social Security.

24. Next year, the initial class 1 contribution rate payable on earnings up to the lower earnings limit will remain at only 2 per cent. This means that a payment of only 92p per week will buy entitlement to the basic pension and other contributory benefits for those who earn just enough to pay contributions. On additional earnings, up to the upper earnings limit, the rate will remain unchanged at 9 per cent. For employers, the main rate will also be unchanged at 10.45 per cent.

25. The lower earnings limit will be increased to £46 a week, in line with the single person's pension, and the upper earnings limit will be raised to £350 a week. For employers, the upper limits for the three reduced rate bands will be increased broadly in line with prices.

#### ECONOMIC PROSPECT

26. I am also publishing today the economic forecast required by the 1975 Industry Act.

27. It is clear beyond any doubt that the economy has greatly strengthened over the last decade. We have experienced eight years of strong and sustained growth with inflation at moderate levels. This has brought an increase in employment of about  $2\frac{3}{4}$  million since March 1983 and a sustained rise in living standards.

28. However it is also clear that in the last two years, 1987 and 1988, demand, and with it output, rose at a rate which exceeded expectations and could not be sustained. That became apparent in increased inflationary pressures and the growth of the current account deficit.



29. These pressures had to be reduced and monetary policy was tightened accordingly. The effects of this tightening are already apparent in recent retail sales figures, and the turnaround in the housing market.

30. The Government's fiscal position is also very strong. I now expect this year's fiscal surplus to be about £12<sup>1</sup>/<sub>2</sub> billion, equivalent to 2<sup>1</sup>/<sub>2</sub> per cent of GDP. That represents a very tight fiscal stance by any standards.

31. Both tax yield and expenditure are higher than forecast at Budget time. But lower proceeds from privatisation and the high take up of personal pensions mean that the Public Sector Debt Repayment will be slightly below the Budget projections.

32. Looking at the wider economy, as always, a great deal depends on the actions of individuals and companies. So there is bound to be uncertainty about the speed with which the economy will adjust to the present tight stance of policy. Our forecast is that growth in domestic demand will be a little over 3<sup>1</sup>/<sub>2</sub> per cent in the current year, a sharp, but inevitable, slowdown from over 7 per cent recorded in 1988.

33. Non-oil GDP is expected to grow by 3 per cent this year. GDP growth as a whole for the current year looks like turning out at 2 per cent, a little below the forecast published at Budget time. This results from lower than expected North Sea oil production, which is taking longer than expected to recover from the serious accidents of the last two years.

34. Business investment is likely to increase by  $9\frac{1}{4}$  per cent this year, giving a total of over 40 per cent in the three years to 1989. This is the largest ever rise in business investment over a three year period and is  $2\frac{1}{2}$  times as fast as the growth of personal consumption over the same period. This has inevitably contributed to strong import growth and a higher current account deficit in the short run. Notwithstanding this unwelcome effect, the resulting increase in productive capacity will help to sustain the growth of output and in due course bring the deficit down.

35. Looking ahead to 1990, our tight fiscal and monetary policy will have an increasing impact both on household spending and on company spending, which typically reacts later than the personal sector.

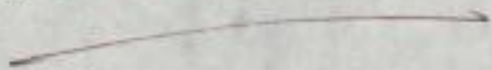
Investment should continue to grow, but it will do so more slowly.

36. The slowdown in the economy means that GDP is forecast to increase by only  $1\frac{1}{4}$  per cent in 1990. This will bring the average growth in the four years to 1990 to 3 per cent a year.

37. As domestic demand slows, import growth should moderate. At the same time, the strong rise in exports, which has been one of the most welcome developments in 1989 is forecast to continue. Non-oil visible exports are expected to rise by over 11 per cent this year, the highest rate since 1973, and we expect a further substantial increase next year. As a result, we now forecast that the current account deficit will fall from some £20 billion in the current year to about £15 billion in 1990.

38. We will also see a further reduction in inflation. The headline measure of retail price inflation has already peaked at over 8 per cent in May and June this year, and has since come down a little. Following the recent rise in mortgage rates, it will remain high for some months. But our forecast is for it to fall to

✓  
↓ Under land economy,



1914-15

$5\frac{3}{4}$  per cent by the fourth quarter of 1990. And I expect to see it fall still further after that.

39. Mr Speaker, our main priority must be to bring inflation decisively down, and keep it down. To achieve this, the economy must slow down for a while. This does mean that 1990 may not be an easy year. But the economy enters the 1990s in incomparably better shape than it entered the 1980s. The supply side reforms of the last decade have left business and industry better able to handle both the short-term difficulties before us and the longer-term opportunities to come. I have no doubt that we must stick to the policies that have turned the British economy around. And that we are determined to do.

J.S.

Trade Deficit £20 bn.

8% - 14 1/2

High interest rates not working.

Deficit Britain - financial problem.

Structural deficit.

Public Exp. 89-90.

£187.6 - Hardly any increase

N.H.S. + £2.6 bn - Red ~~less~~ <sup>very</sup> increase of 5%

Housing - 11 million 15,000 new lettings.

Ed'n - Real increase.

Output down  
8% P stability

T.H. Prudence plus right priorities

Let Cap Spending  
Fall

M.T.F.S | I.R.

Men Unemp 4%

Prospects - + growth.

Public Expend - ~~350~~ ~~Eds~~ ~~150~~ ~~that~~ do do

[Anti]

Overseas Inv

Balance Budget

£50 bn. - Demand

X change rate - 5%  
£

Deficit, £16.8 → 203

## Autumn Statement

3.31 pm

**The Chancellor of the Exchequer (Mr. John Major):** With permission, Mr. Speaker, I should like to make a statement.

Cabinet agreed the Government's expenditure plans this morning. I am now able to inform the House of the public expenditure outturn for this year; the plans for the next three years; proposals for national insurance contributions in 1990-91; and the forecast of economic prospects for 1990 required by the Industry Act 1975.

The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I sit down. The printed Autumn Statement will be published next Wednesday.

Tight control of public expenditure remains a central element of the Government's economic strategy. In the past seven years this has led to a sharp fall in the ratio of public spending, excluding privatisation proceeds, to national income. This fall has made it possible to improve dramatically the Government's finances while still making substantial reductions in tax rates. The ratio of public spending to gross domestic product was nearly 47 per cent. in 1982-83. In the current year, it is likely to be 38½ per cent., significantly below the level expected at the time of the last Autumn Statement. For the next two years the plans I am announcing today show ratios of 39 and 38½ per cent. Those are unchanged from the ratios published in last year's Autumn Statement, and permit a cash increase in general Government expenditure in 1990-91 of around £5½ billion. By 1992-93 the ratio is expected to fall further to its lowest level since the mid-1960s.

For the current year, the outturn of expenditure is expected to be about £168 billion—£1 billion higher than the original planning total. This partly reflects a lower level of privatisation proceeds, but its principal cause is massive overspending by local authorities on both current and capital account. As the House knows, new arrangements for the finance and control of local authority expenditure in England and Wales are being introduced on 1 April 1990. This year's outturn shows how necessary those new measures are. Central Government spending remains firmly under control.

The plans for the next three years have been set on the new definition of the planning total which the Government announced in July last year and which was welcomed by the Treasury and Civil Service Select Committee. This includes central Government support for local authorities, but excludes their self-financed expenditure. The composition of general Government expenditure remains unchanged.

For 1990-91, the new planning total has been set at £179 billion and, in the following two years, at £192 billion and £203 billion respectively. Within that, the estimates of privatisation proceeds are unchanged, at £5 billion a year. There are also substantial reserves, rising from £3 billion in 1990-91 to £6 billion and £9 billion in the following two years.

The new plans also show continued real growth in spending on the Government's priorities. Thus, between this year and next, spending on the National Health Service in the United Kingdom will rise by £2,400 million. Taking account of income generation and cost savings, that is equivalent to a £2,600 million increase in resources,

or 5½ per cent. in real terms. These plans will finance the improvements in the management of the service outlined in the National Health Service review. They provide more than £200 million extra for hospital building and other capital expenditure next year; and they will finance continuing growth in services for patients. They are the clearest possible evidence of the Government's practical commitment to improving the care available in the National Health Service.

There will be substantial increases also for investment in transport. Spending on national roads is planned to double between 1988-89 and 1992-93. Extra financing of £400 million to £500 million a year is being made available for the railways and London Regional Transport, including upgrading the services on Network SouthEast and the London Underground, to relieve congestion and improve safety, and for rail services for the Channel tunnel. In total we have added £1.8 billion to the planned spending on transport in the next two years.

The plans provide an extra £250 million over the next two years for a new initiative to tackle homelessness, to be announced today by my right hon. Friend 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.

My right hon. Friend the Secretary of State for Social Security has already announced real increases in benefits which will help 1½ million families and ½ million long-term sick and disabled people.

There will be a further increase of over £500 million in the total resources available for higher education in 1990-91 compared with this year. It will provide for the continuing growth in the number of students, which has risen by 30 per cent. since 1979, and is now at a record level and it will cover the cost of the Government's proposals on top-up loans. There is provision for more environmental research, including the new climate change centre and the doubling of our contribution to the United Nations environmental programme.

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

**Mr. Eric S. Heffer (Liverpool, Walton):** On a point of order, Mr. Speaker, I have been a Member for a long time, but I wish to know whether I am allowed to ask the Chancellor of the Exchequer a question. He is making a long statement. Am I allowed to ask a question and, if not, when can I ask him a question?

**Mr. Speaker:** Order. Surely, the hon. Member does not need to pose that question. If I call him later, he can ask the Chancellor a question then.

**Mr. Major:** The new plans include the money central Government provide to support local authority spending. The Government's proposals for aggregate external finance in 1990-91 were announced to the House in July. Measures have also been announced which will ease the transition from rates to community charge. The cost to the taxpayer of these measures will be nearly £700 million in 1990-91, with further substantial sums in each of the following two years.

**Mr. Hayward:** Does my right hon. and learned Friend find it amazing that Opposition Members stand up and plead on behalf of factories in their constituencies, when the Labour party has voted for a reduction in defence expenditure of as much as one third which would put at risk 7,000 jobs in Scotland alone?

**Mr. Rifkind:** Those who work in defence industries in Scotland, or in the United Kingdom as a whole, have never been in any doubt about the disastrous implications for their employment of the Labour party coming to office with its old policies, its new policies or any future shred of policy it may care to put before them.

### Local Government Finance

12. **Mr. Douglas:** To ask the Secretary of State for Scotland if he will make a statement on the consequences for local authority manpower and expenditure of the recently announced changes in poll tax payments and exemptions.

**Lord James Douglas-Hamilton:** The manpower and expenditure consequences of all but one of the amendments to the community charge legislation included in the Local Government and Housing Bill are expected to be minor. The one exception is the transitional relief scheme. The Government have already undertaken to reimburse reasonable administrative costs incurred by local authorities.

**Mr. Douglas:** Does the Minister have the figures which would show the massive increase in the cost of collecting the poll tax, compared with the rating system, and the massive increase in personnel involved? Will he take time to read yesterday's excellent editorial in *The Scotsman*, which said that no matter what the Government try to do with the tax, it is becoming a shambles and ought to be completely removed from the statute book?

**Lord James Douglas-Hamilton:** Of course the collection of the community charge will be more expensive because it applies to more people. Before the hon. Member criticises that form of taxation he should remember what his own environment spokesman had to say. He said:

"The two tax idea had a great deal of merit but when it was approved by the Home Policy Committee I took a lead in expressing concern about the difficulty of selling two taxes". The hon. Member should also make representations to his own Front Bench.

**Sir Nicholas Fairbairn:** Does my hon. Friend think that if the hon. Member for Dunfermline, West (Mr. Douglas) is worried about an increase in expenditure on the collection of the tax falling on those who have to pay it, he should obey the law and pay his own?

**Lord James Douglas-Hamilton:** Yes, I would say to my hon. and learned Friend that those who refuse to pay community charge when they are well able to do so are sponging off the rest of the community.

**Mr. Maxton:** Is the Minister yet able to tell us what the recalculated allocation to Glasgow district council will be? Does it not illustrate the obscurity of the poll tax system

that on 1 April there will be a massive increase in the poll tax for my deprived constituency in Castlemilk, while the wealthy citizens of Eastwood, Bearsden and Milngavie may have a cut in their poll tax? Is it not quite absurd, in the year when Glasgow is the city of culture, representing the United Kingdom throughout the world, that the Secretary of State is cutting the amount of money which he will give it?

**Lord James Douglas-Hamilton:** I am glad to say that this is being sorted out as a matter of urgency. The revised distribution proposals will be issued to COSLA and to local authorities within the next few days. I must make it clear that the figures issued in the statement earlier this week were provisional and that the grant is not payable until next April. Therefore, things will be sorted out quickly.

### A9

13. **Sir Russell Johnston:** To ask the Secretary of State for Scotland what improvements he proposes for the A9 between Perth and Inverness.

**Lord James Douglas-Hamilton:** The A9 has been fully reconstructed between Perth and Inverness to the great benefit of the economy of Inverness and the surrounding areas. I hope to make a statement on an agreed package of further improvements in the near future.

**Sir Russell Johnston:** Is the Minister aware that the recent spate of accidents on the A9 has caused a great deal of concern? Part of the cause of those accidents must be the road's design—alternate dual and single carriageway, long slow curves where overtaking is difficult and many crossing points. I look forward to hearing the statement that the Minister has promised us.

**Lord James Douglas-Hamilton:** We have consulted the hon. Gentleman's chief constable and his regional council and we shall introduce a package of accident remedial measures that could involve signposting, markings on the road and improving its surface in various parts. In the past few weeks I have travelled up and down the A9 to his constituency and, overall, it is an extremely good road. Certain parts of it, however, need urgent attention and that will be put in hand.

3.30 pm

**Mr. Speaker:** I have a short statement to make about the operation of the 4 o'clock shuffle, which determines the order of oral questions due for answer two weeks ahead.

With effect from the start of next Session the shuffle will be done by computer, instead of manually as at present. [HON. MEMBERS: "Hear, hear."] Order. I have inspected the new system and I am fully satisfied that it is more efficient than the present arrangements, and, more importantly, equally fair.

If any hon. Member wishes to see the new system in operation, the Table Office will be glad to arrange this.



PRIME MINISTER

CABINET: PUBLIC EXPENDITURE

You briefly discussed the handling of the Cabinet discussion on public expenditure with the Chancellor this afternoon.

The Chief Secretary's Cabinet paper is at Flag A. And a Cabinet Office handling brief is at Flag B. The latter covers all the main points, including the proposed form of words that Bernard should use following the meeting.

The one point not covered is the order in which Cabinet members might speak. You will want to adopt your usual approach of interleaving speakers. You may find it helpful to have to hand the lists below: I've put likely strong supporters in the left hand column. You will want to start and end with some speakers from this list; and to bring in those from the other two lists in the middle of the discussion.

Trade and Industry	Health	✓ Wales
Defence	Scotland	✓ Chancellor of the Duchy
✓ Education	Foreign Secretary	
✓ Transport	Social Security	
Northern Ireland	Environment	
Lord Chancellor	✓ Lord Privy Seal	
Agriculture	Lord President	
Home Secretary		
Energy		
✓ Employment		

*PG*

PAUL GRAY

14 November 1989

Ref. A089/2976

PRIME MINISTER

## CABINET: 1989 PUBLIC EXPENDITURE SURVEY

Paper by the Chief Secretary: C(89)13

## CONCLUSIONS

The Chief Secretary's paper lists in paragraph 13 the points on which he invites the agreement of Cabinet. The main point is that he seeks Cabinet endorsement of the settlements which he has reached on individual public expenditure programmes. You will want the Cabinet to accept his proposals.

2. The Chancellor of the Exchequer will in discussion put forward his proposals for the levels of reserves, and hence for planning totals, over the Survey period. You will want the Cabinet to accept the Chancellor's proposals too.

3. The Chancellor of the Exchequer will also set out his assessment of the prospects for the economy, including the Industry Act forecasts, as it will appear in the Autumn Statement. There is no need to record a Cabinet decision about this.

4. You will wish at the end of the discussion to read out the communique to be given to the press after the meeting, announcing that the Chancellor will make his Autumn Statement later that day. The contents of the Autumn Statement should be kept strictly confidential until then.

#### The Chief Secretary's paper

5. You will want to start by asking the Chief Secretary to introduce his paper. It gives details of the settlements on individual programmes; the consequent total additions to programmes; the Survey outcome on capital spending and running costs; and the estimated outturn in 1989-90.

#### The Chancellor's Statement

6. You may then wish to ask the Chancellor to speak. He will propose that reserves and planning totals should be fixed as shown in Table I attached. The important point here is how far the Government has met its main objective of maintaining the downward trend in general Government expenditure as a proportion of GDP. Table I shows that this will rise from the unexpectedly low level of 38 3/4% in 1989-90 to 39% in 1990-91, but will then decline in the two following years to 38 3/4% and 38 1/2%.

7. The Chancellor will also announce his intention, subject to Cabinet agreement, to make his Autumn Statement in the afternoon. He will describe briefly the prospects for the economy to be shown by the forecasts in the Statement. The main elements of these are:

- a. GDP growth at 2% in 1989, and 1 1/2% in 1990;
- b. current account deficit at £20 billion in 1989 and £15 billion in 1990; 20-14
- c. RPI inflation at 7 1/2% in the last quarter of this year, and 5 3/4% in last quarter of 1990. 7 1/2 - 5 3/4

#### Subsequent discussion

8. After the Chief Secretary and Chancellor have spoken, you might invite other Ministers to speak. The Lord President of the Council will have an interest as Chairman of Star Chamber,

Business Investment 92

C

although it was not in the event asked to adjudicate on any programme. You could then provide an opportunity for Departmental Ministers who wished to say a few words about the settlements they have reached on their own programmes. You may wish to ensure that any decisions which may cause a row (eg on Social Security) are brought to the attention of the Cabinet and their justification explained. But you will wish to emphasise that there can be no reopening of these settlements, and to discourage comments by Ministers on programmes other than their own. You may find it helpful to have the supplementary notes, provided by the Treasury, which are annexed to this brief, covering both the Survey outcome and economic prospects.

#### Presentation and next steps

9. You may wish to propose that the No 10 Press Office should issue a statement along the following lines:

"Cabinet today successfully concluded its work on the 1989 Public Expenditure Survey. The Chancellor proposes to make his Autumn Statement to the House this afternoon, setting out the outcome of the Survey and the prospects for the economy. The full printed version of the Autumn Statement will be published on Tuesday 22 November".

10. You may also wish to emphasise:

i. confidentiality. Until the Chancellor has completed his statement in the House its contents must remain strictly confidential.

ii. presentation. It is important that there should be a consistent and positive presentation by Departments of the decisions affecting their own programmes, with full consultation where necessary.

#### HANDLING

11. You will wish to ask the Chief Secretary, Treasury to speak

first on C(89)13 and then the Chancellor of the Exchequer on the reserves and planning totals, and prospects for the economy. The Lord President of the Council has an interest as Chairman of the Star Chamber. You could give any Cabinet Minister who wishes to speak an opportunity to do so.

R.R.B.

ROBIN BUTLER

14 November 1989

● TABLE I : SURVEY OUTCOME

	1989-90 <sup>†</sup>	1990-91	1991-92	1992-93
Outcome on programmes	165.9	181.0	191.3	199.4
Reserves	[1.3]	3	6	9
Privatisation proceeds	4.25	-5	-5	-5
<b>New Planning Total</b>	<b>161.7</b>	<b>179.0</b>	<b>192.3</b>	<b>203.4</b>
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
<b>equals GGE (excl priv proceeds)</b>	<b>200.5</b>	<b>215.4</b>	<b>227.2</b>	<b>239.1</b>
<b>GGE (excl priv proceeds)</b>				
% change in real terms	1.0	2.3	1.9	2.2
as % GDP	38½	39	38½	38½
1988 AS	39½	39	38½	(-)

<sup>†</sup> 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 II : PUBLIC EXPENDITURE TRENDS

**Real GGE (excl priv proceeds)**  
annual average % change

1968-78 to 1978-79	3
1978-79 to 1988-89	1½
1988-89 to 1992-93	1½

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

1965-66	37½
1975-76	48½ (post-war peak)
1978-79	43½
1982-83	46½ (peak under this Government)
1988-89	39

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 38½ per cent of GDP in 1989-90 - lower than 39½ per cent previously forecast. Down from 46½ 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.

- GGE/GDP ratio for 1990-91 (39 per cent) and 1991-92 (38½ 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 1½ 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 (£2½ billion), and privatisation proceeds (£½ billion).

(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 1½ 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 5½ 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
<u>Money GDP*</u>					
FSBR	11	7½	6	5	5½
Autumn Statement	10½	8½	7	6½	5½

(\*Autumn Statement figures for money GDP in 1989-90 are reduced by about ½ per cent by introduction of community charge in Scotland. Thus overshoot on MTFS for 1989-90 is actually larger than shown here.)

(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.

DefensiveMonetary 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? Fiscal stance very tight. [No case for emergency measures.] Fiscal stance for 1990-91 will be set in 1990 Budget, in usual way.

(viii) Money GDP growth overshooting MTPS again? Government has demonstrated willingness to set interest rates at whatever levels required to defeat inflation. Raising of interest rates is MTPS 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 1½ 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 3½ 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 (£2½ billion, of which £1.6 billion capital). Reform of local government finance should put that right for future. GGE ratio in 1989-90 actually ¼ 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 unmistakable 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. Clear 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-optimistic? 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 problems? 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 4½ 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 finance substantial investment programmes. Not right that all of burden should fall on taxpayer, when it is industries' customers who will benefit. 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

CONFIDENTIAL



afu  
on

bc: Richard  
Hudson  
(with copy of  
Annex A  
below)

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

13 November 1989

CHIEF SECRETARY'S CABINET PAPER  
ON PUBLIC EXPENDITURE

Thank you for sending me a copy of the draft of the Chief Secretary's paper for Cabinet next Wednesday. The Prime Minister has seen this; she is content with it and for it to be circulated to Cabinet on Tuesday.

I am copying this letter to Sir Robin Butler (Cabinet Office).

(PAUL GRAY)

Miss Carys Evans,  
Chief Secretary's Office.

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SECRET

B B 7A(a-n).

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(89)

10 November 1989

Copy No

CABINET

1989 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, Treasury

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.

5. In summary, the settlements imply the following additions to baseline:

	1990-91	1991-92	£ billion 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
<b>Total additions to programmes</b>	<b>7.5</b>	<b>9.7</b>	<b>13.2</b>

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 of £½ billion in 1990-91, rising to £½ 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) comes to around £2 billion over the three years. The new plans also 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 9½ 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 4½ 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 £2½ billion, lower privatisation proceeds some £½ billion and public corporations some £½ billion.

so excluding  
privatisation  
the  
cash  
over-run is  
only  
see £0.3b.

not had given the higher than expected inflation. R216.



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.

[NL]

SECRET

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	5
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

## 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
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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.

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.

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.

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
--	------	------	------

*This excludes restructured industries - they are shown separately below. P. 116.*

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 £½ 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.

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.

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.

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.

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



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.

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.

<u>Inland Revenue</u>	+194	+174	+214
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<u>Customs and Excise</u>	+ 39	+ 54	+105
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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

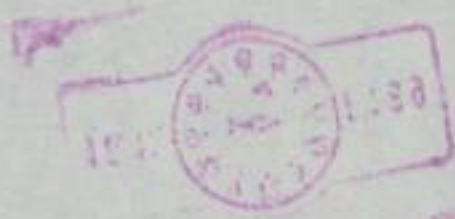
	+915	+532	+512
--	------	------	------

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.

N

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.





PRIME MINISTER

AUTUMN STATEMENT

We are still on schedule for the oral Autumn Statement next Wednesday afternoon following Cabinet in the morning.

I now attach:

Flag A - a draft of the Chief Secretary's paper for Cabinet

Flag B - the latest proof of the written Autumn Statement which will be published a few days after the oral Statement. (Wednesday's oral Statement will be accompanied by a summary press release.)

Chief Secretary's Paper

This follows the conventional pattern. As usual it does not reveal the proposed levels of the Reserves or the resulting public expenditure totals. The Chancellor will present his proposals for these aggregates orally at the Cabinet meeting.

If you are content with the form of the paper I suggest we also follow past practice for its circulation and put it round during the course of next Tuesday - i.e. the day before Cabinet.

The written Autumn Statement

Again this follows the pattern of earlier years and comprises four chapters

- public expenditure plans
- the economic forecast
- the annual national insurance proposals
- the tax revenue ready reckoner.

The expenditure plans set out the overall aggregates, which the Chancellor discussed with you earlier in the week, and summary

details of each of the individual programmes.

The economic forecast is again as the Chancellor discussed with you. The one change I have spotted is that he now proposes to give a RPI figure for 1990 Q4 of  $5\frac{3}{4}$  per cent rather than 6 per cent. You may like to flick through this chapter to see how the general message compares with the present draft of your Lord Mayor's Banquet speech; it looks to me to fit very well with it, including a reference to the problem of increases in costs.

The national insurance proposals are for a normal uprating, with the usual indexation of the various earnings limits. No change is proposed in the rates of contribution.

Conclusion

Content with the format of the Chief Secretary's paper for Cabinet and for it to be circulated on Tuesday?

Recg.

(PAUL GRAY)

Y  
eo mt

10 November 1989

c:\wpdocs\economic\autumn.dca



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

10 November 1989

P R C Gray Esq  
Private Secretary to  
Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Paul,*

*PR*  
**PRINTED AUTUMN STATEMENT**

... I enclose as you requested a latest draft of the Autumn Statement document.

As you are aware the printed document is not being published until 22 November, a week after the Oral Statement. The attached draft chapters are yet to be finalised and are subject to comments from the Chancellor and the Chief Secretary.

*Yours,*

*Duncan.*

**DUNCAN SPARKES**  
Assistant Private Secretary

FA

## AUTUMN STATEMENT - PUBLISHED FORECAST

<u>% change at constant prices</u>	1989	1990
Domestic demand	3½	0
Fixed investment	5½	2
GDP (excluding oil)	3	½
GDP	2	1½
<u>Current account deficit</u> £billion	20	15
<u>RPI Q4 on Q4</u>	7½	6

	1988-89	1989-90	1990-91	1991-92	1992-93
<u>Money GDP</u>					
% increase	10½	8½	7	[6½]	[6]
£ billion	476	516½	552	[587]	[621]
<u>PSDR</u>					
£ billion	14.3	12.6	[10]	-	-
<u>GGE</u> £ billion (ex privatisation proceeds)	185.7	200.0	215.4	227.6	239.5
£ billion increase on previous plans	-	+0.7	+5.4	+6.6	-
% of GDP	39	38½	39	38½	38½

Figures in square brackets are working assumptions



celth.



CF - M.

R26  
6/11

Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Kenneth Clarke QC MP  
Secretary of State for Health  
Department of Health  
Richmond House  
79 Whitehall  
London  
SW1

Prime Minister <sup>2</sup>

To note X below, which  
means we are likely to have a  
bid on the reserve in January next

6 November 1989 we get the  
Review Body reports.

R26  
6/11

1989 PUBLIC EXPENDITURE SURVEY: HEALTH AND PERSONAL SOCIAL SERVICES

I am writing to confirm the outcome of our third bilateral on 5 October.

2. We agreed the changes to the baseline set out in the attached table. You said you might wish to consider some reallocation of provision between the different cash-limited programmes. I should be content for you to do this. Your officials should inform mine of your decisions.

X | 3. The settlement makes no explicit provision for next year's Review Body awards above the GDP deflator, but you will continue to maintain the line with the Review Bodies and elsewhere that full funding of any excess cannot be assumed. That will be a matter for later decision.

4. The provision in years 2 and 3 for AIDS treatment, Whitley pay and GP practice budgets simply rolls forward that for 1990-91. Any further provision for these items in 1991-92 and 1992-93 would be a matter for the 1990 Survey.

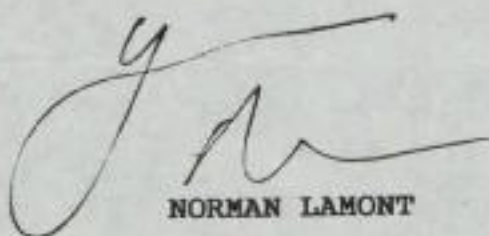
5. You agreed to withdraw your bid in respect of new funding arrangements for PAM students, but said you would wish to return to this in the 1990 survey. I should be grateful if you could ensure that the policy underlying any bids next year for this and any other major new proposal has been fully discussed with the Treasury at the earliest possible stage.

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6. We have reached a settlement on cash-limited FPS expenditure which is based on the latest estimates of likely commitments under the cost rent scheme. But I recognise that it is particularly difficult to get this right in the last year before cash limits are introduced. We have therefore expressed ourselves willing to look at the provision again at Main Estimates time if further information shows that the cost of meeting existing cost rent scheme commitments will be greater than the £86 million assumed at present.

... 7. On departmental administration, I understand that officials have reached agreement on the figures shown in the table. I am content with this.

8. I am sending copies of this letter to the Prime Minister, Peter Brooke, Malcolm Rifkind and Peter Walker.



NORMAN LAMONT


**PES 1989: HPSS OUTCOME**

<b>BID</b>	<b>SETTLEMENT</b>
A1 Review Body	120/124/128
A2 Whitley pay	81/81/81
A3 VAT	0/0/0
A4/6/7/11 HCHS activity	290/435/858
A5, B1&C1 CIPs	0/0/-200
A8/C2 AIDS	0/0/0
A9 NHS Rev HCHS Cur	140/215/250
A10 Mngmnt & training	20/37/55
A12 Health education	0/0/0
A13/C3 Constn/land sales}	
A14 Addnl investment }	90/100/110
A15 Capital Loan Fund}	
A16 NHS Review Capital	46/40/10
A17 FPS DDRB	48/51/53
A18 FPS demand	137/277/662
A19 NHS Review FPS	30/19/10
A20 FPS serv devpmnt	42/47/52
A21/B2 CFS non-cash ltd	-1/1/13
A22 CFS NHS Review	41/42/41
A23/B3/C5 Other CFS	48/38/36
A24/B4/C6 Dept admin	
- running costs	23/19/19
- other	-4/-5/-5
A25 LA specific grants	29/11/10
A26 LA PSS Capital	15/20/25
C4 FPS Charges	-4/-9/-32
<b>TOTAL</b>	<b>1191/1543/2176</b>
<b>NEW PROGRAMME TOTAL</b>	<b>22133/23399/24578</b>

U.S. 11.  AM 89

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CCPJ.  
BL



NBM

McG

3/11

Treasury Chambers, Parliament Street SW1P 3AG

Stephen Wall Esq  
Private Secretary to the  
Foreign Secretary  
Foreign & Commonwealth Office  
Downing Street  
London  
SW1

3 November 1989

Dear Stephen

AUTUMN STATEMENT PRESS NOTICES

The Chief Secretary attaches great importance to ensuring a coordinated presentation of the public expenditure plans to be announced in the Autumn Statement. This will require special care this year, given the introduction of new systems of local government finance and the new planning total.

2. The Chancellor proposes to issue on the day of the Autumn Statement, the Industry Act forecast, and summary material on the new expenditure plans, including a number of tables and an explanation of the new planning total. He hopes that departments will be ready as usual to issue press notices on the same day, providing a positive presentation of the main features of their programmes. These should emphasise the outputs to be achieved as well as the money to be spent.

3. The date of the Autumn Statement has not yet been settled. But the Chief Secretary would be most grateful if you could ensure that:

- (i) your department's normal Treasury expenditure division contact is informed by the close on Tuesday 7 November whether your department intends to issue a press notice on the day of the Autumn Statement.
- (ii) your department provides Amanda Higgins in the Treasury (270-5208) by 7 November with the name and telephone number of someone in your department who can be contacted later about detailed arrangements for sending copies of the final press notice to the Treasury.

(iii) a draft of any press notice your department intends to issue is sent to your department's normal Treasury expenditure division contact by the close on Wednesday 8 November.

4. We will be in touch again about detailed arrangements for handling the final press notices when the date of the Autumn Statement is settled.

5. If asked about the date of the Autumn Statement, departments should say that the public expenditure round has not yet been concluded, and that the Autumn Statement will be made as soon as practicable after the end of the Survey.

6. I am copying this letter to Paul Gray (No. 10), the private secretaries to all Cabinet Ministers, and to Michael Saunders (Attorney General's office), Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Office of the Minister for Overseas Development), Alan Maxwell (Lord Advocate's office), Trevor Woolley (Cabinet Office), and to the private secretaries to the Chairmen of the Inland Revenue and Customs and Excise.

*Yours*  
*Carys Evans*

MISS C EVANS  
Private Secretary

## ANNEX 2

## CAPITAL SPENDING AND INFRASTRUCTURE: SECTOR BULL POINTS

Roads Between 1978-79 and 1989-90, capital spending (including structural maintenance) on motorways and trunk roads in England to increase by over 50 percent in real terms. Cash provision for this year is £1,238 million. Since 1979-80 886 miles of new motorways and trunk roads completed, including 100 bypasses. 1988 Survey additions mean Government will be spending nearly £3 billion over next 3 years improving motorways and trunk roads and £1.3 billion on road maintenance. About 40 new starts planned for 1989-90. Will add over 200 miles to road network. Plan to eliminate backlog of motorway and trunk road repairs by 1992. In total, plans imply further increase of about 16 per cent in national road programme between 1988-89 and 1991-92.

Water and sewerage (England and Wales) Estimated public sector investment of over £8 billion between 1978-79 and 1988-89. Additional £1 billion added to existing plans in 1989-90, virtually all of which to speed cleaning up of sewage discharges and to improve quality of drinking water.

Railways Almost £3½ billion investment in railways between 1978-79 and 1988-89 with around £4 billion planned over next 5 years; most of this already approved. 56 per cent real increase in rail investment between 1978-79 and 1989-90; biggest renewal programme since switch from steam to diesel in 1950s and being achieved while reducing BR's call on public funds. London Regional Transport plans to invest £486 million in 1989-90 up by a third on 1988-89 and £1.5 billion between 1989-90 and 1991-92. Have provided fully for all new safety measures proposed by LRT following King's Cross disaster, totalling some £266 million over next 3 years. Central London Rail Study established to identify ways of reducing congestion and increasing capacity. Work is continuing on most promising options. East London Rail Study also considering extension of Jubilee Line to Docklands (see Section U).

NHS Cash available for capital expenditure on Hospital Service in Great Britain for 1989-90 including land sales, is nearly 40 per cent up in real terms since 1979-80. Compares with real terms drop of 29 per cent between 1973-74 and 1978-79. Over 500 major schemes in various stages of planning, design and construction in England alone - largest sustained building programme in NHS history.

Educational provision Allocations of £352 million to local authorities in 1989-90 will allow them to: maintain existing programme of improvements to school buildings; provide extra school places in growth areas; rationalise school provision and help eliminate surplus places as rolls fall; and provide for both new and continued major projects in further and higher education.

Housing (England) Capital spending on LA housing renovation forecast to increase from £479 million in 1978-79 to some £1.9 billion in 1989-90 - 72 per cent increase in real terms. Large additions to DOE gross capital expenditure on housing in Survey mean investment over next three years planned at over £4 billion a year (gross LA capital spending about £3 billion a year).

Electricity (including Scottish Electricity) Capital expenditure on fixed assets rose from £816 million in 1978-79 to estimated £1.8 billion in 1988-89, a small increase in real terms. Private sector schemes already proposed for 12GW of capacity (about 20 per cent of GB requirements) anticipating privatisation. About £1.8 billion will be spent over next 15 years in reducing emissions of sulphur dioxide and nitrogen oxides from coal-powered stations, thus reducing acid rain.

Prisons (England & Wales) Capital spending on new prison building estimated to have trebled in real terms between 1978-79 and 1988-89. In addition to existing building programme of 26 new prisons in England and Wales (some of which already open), extra provision in 1989-90 and 1990-91 will permit construction of two more prisons and three purpose built remand centres. These and extra accommodation added to existing prisons will provide 3,000 places. Aim is to provide total of 58,000 places by 1993. Plans imply over 50 percent increase in capital spending in real terms between 1988-89 and 1991-92.

Civil Aviation Authority Provision for CAA over next three years will allow over £200 million new investment, more than double investment over last three years, allowing continuing modernisation of air traffic control and an increase of at least 30 per cent in airspace capacity over South East England by 1995.



PRIME MINISTER

CF-pe.

TIMING OF THE AUTUMN STATEMENT

I mentioned to you yesterday that the Chancellor wished to postpone the timing of the Autumn Statement to give himself some time to consider the presentation of the new economic forecast.

We had originally been scheduling the Statement for next Thursday 9 November following Cabinet endorsement of the public spending plans the same morning.

The Treasury initially proposed deferring for a full week until Thursday 16 November. That however causes problems for the Prorogation, which is scheduled for that morning. If we were to have Cabinet endorsement of the public spending plans on the morning of Thursday 16th, followed by the Autumn Statement delivered to the House in the afternoon, that would delay Prorogation until the end of Thursday. It would mean effectively a further full days Parliamentary business, including another Question Time for you.

So we have now looked at the other possibilities and provisionally arranged to have the Autumn Statement on the afternoon of Wednesday 15th. We shall bring forward the Cabinet meeting that week to the morning of Wednesday 15th. This will mean the public spending plans do not have to be endorsed by Cabinet until just before the Statement, so removing the risks involved in having a long gap between Cabinet endorsement and publication.

pac6.

PAUL GRAY

1 November 1989

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*Jim Morrison*

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307x.

PRIME MINISTER

*mf*

PUBLIC EXPENDITURE SURVEY: DEFENCE

Norman Lamont and I have now concluded our negotiations on Defence in the Public Expenditure Survey and we have agreed that I should report the outcome to you.

2. I, of course, have recognised the difficult situation this year, especially over inflation, and the importance for Norman in the case of Defence of avoiding re-opening, on inflation grounds, the three-year settlement which our predecessors agreed last year.
3. Against this, I have very real problems in meeting the extra cash costs from higher inflation without any visible cuts in the defence programme. I also am having to increase investment in security as a result of Mill Hill and Deal, as well as in measures to tackle the serious retention and recruitment problems we have to face.
4. To meet these twin challenges, we have agreed as follows. First, this year's settlement sticks as closely as possible to the PES 88 outcome. It rolls forward the three-year arrangement, with a further £750M in 1992/3. While on current inflation projections, we shall have growth in defence provision of just over 1 per cent a year on average, this will, of course, be eroded if inflation projections increase in the Autumn Statement. The defence percentage of GDP will be 3.8 per cent, as against the 4 per cent predicted last year, which we shall claim as a steady state in support of our international posture, particularly in regard to CFE.



5. Second, to assist the more efficient use of resources we are adding some flexibility in the use of the agreed provision. Overall provision for 1990/1 remains unchanged, but within it we have agreed an increase of £236M in the running cost limit (to be increased, as necessary, for AWE) to give me more latitude in the use of the cash. For 1991/2, we have reprofiled technical additions due to the MOD over a number of years to provide an increase of £215M. This directs cash to a year of particular difficulty but does so in a way consistent with the three-year agreement reached last year. We have also agreed that, in certain specified circumstances, up to £200M could, in subsequent PES settlements, be carried back from 1992/3 to 1991/2. To get the best out of our capital spending and procurement, we are discussing the application to Defence of the normal end-year flexibility arrangements for capital provision.

6. Third, we have again sought to maximise the benefits of efficiency savings both from the main efficiency scheme itself and from the sustained improvement of our procurement processes.

7. The problem here is to translate this settlement into programme terms. (I am having the precise implications examined in my current long-term costing.) There will have to be changes from the programme planned last year; some are likely to be painful, affecting the front line. I shall, of course, do my best to minimise the damage to capability and too visible an exposure of the changes to allies and public. I shall report the results to you in due course.

8. I am grateful to Norman for his understanding. What we have agreed is not going to be easy, but I accept it as the necessary basis on which to proceed.

9. I am copying this minute to Norman Lamont and to Sir Robin Butler.

Ministry of Defence  
30 October 1989

*B. R. D. (Private Secretary)*  
for Mr King  
T. K.  
(Approved by the Defence Secretary  
and signed in his absence on duty)



COMPTON

IN

SECRET



5

File  
DA

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

25 October 1989

Dear Carys,

1989 PUBLIC EXPENDITURE SURVEY

The Prime Minister was most grateful for the Chief Secretary's minute of 24 October. She has noted the contents of his report on progress so far in the public expenditure round.

The Prime Minister and the Chancellor briefly discussed the position reached at their bilateral this afternoon. One possibility raised was that a change might be made to the present assumption of a 5% real terms increase in council house rents in the next financial year. Although this produced a £200 million saving on the housing programme as compared with zero real terms change, some 85% of this saving would be offset via additions to the social security budget. Against that background it was for consideration whether this approach was appropriate bearing in mind the impact of 0.1% on the RPI in Spring 1990. Following a brief discussion the Prime Minister and Chancellor agreed it would be preferable to adopt a zero real terms change in rents next year.

I am copying this letter to John Gieve (Chancellor's Office).

Yan.  
Paul

(PAUL GRAY)

Miss Carys Evans,  
Chief Secretary's Office.

SECRET

PRIME MINISTER

CABINET HOME AFFAIRS:  
STAR CHAMBER AND CHILD BENEFIT

*mt*

As you know the Star Chamber met this afternoon to review the position reached in the Public Expenditure negotiations.

One point which has been reported to me, and of which you should be aware, is that there were undercurrents in the discussions about the child benefit position. The elements to emerge were:

- some dissatisfaction that there was no opportunity for collective consideration of this decision before it was announced. (You will recall you wanted it brought forward to Wednesday so that it would not clash with the heavy schedule of Parliamentary Business Recess on Thursday.)
- no clearly expressed view that the decision was wrong this year, but a feeling that consideration did need to be given to the longer-term evolution of child benefit policy.
- in particular this could be of considerable sensitivity in the run-up to the election.

I suppose it is possible that there could be a flavour of this in Cabinet tomorrow.

*Prca.*

PAUL GRAY  
25 OCTOBER 1989

A: BENEFIT.MRM

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Covering CMO until 31/12/1989.



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FROM: CHIEF SECRETARY  
DATE: 24 October 1989

PRIME MINISTER

1989 PUBLIC EXPENDITURE SURVEY

I thought you would like to have a brief report on progress so far in the public expenditure round.

2 I have been able to reach substantial agreement with colleagues without recourse to Star Chamber and I shall report the outcome of my bilateral discussions to the group tomorrow. A summary of the outcome for each of the main programmes which I ... shall hand out at the meeting, is attached.

3 The detailed implications of this outcome for the planning total, General Government Expenditure (GGE) and the GGE/GDP are still being worked out. As expected, the prospect is that we will publish large cash additions to GGE, even larger than in 1986. I believe that we should be able to hold the GGE ratio in 1990-91 to no more than 39 per cent. This was the figure in last year's Autumn Statement, but it will imply a small rise on this year's outturn. (This is now expected to be 38½-38¾ per cent, significantly below the figure of 39¾ per cent previously published.) Accordingly I attach great importance to achieving some decline in the ratio over the Survey period, to a level in 1992-93 no higher than that expected for this year. As things stand at present, this should just be possible.

4 The presentation of this outcome will need great care, but we can point to the continuing downward trend in the ratio, albeit at a much more modest rate, even though we cannot show a reduction in every year as we have done after other recent Surveys. Instead, the trend will be interrupted by the unexpectedly low level this year, leading to some increase in the ratio next year. Coming

SECRET

after the sharp fall in the ratio in the past few years, I believe that this outcome should enable us to demonstrate our continued determination to keep a firm grip on public spending in difficult economic circumstances.

5 You expressed a preference for making the Oral Statement on 9 November, following a discussion at Cabinet the same morning. We hope to be able to meet this timetable.



NORMAN LAMONT



S E C R E T

PUBLIC EXPENDITURE SURVEY : POSITION REACHED AFTER THE BILATERALS

Memorandum by the Chief Secretary to the Treasury

This paper reports the outcome of my bilateral discussions with colleagues, which have been conducted within the remit agreed by Cabinet in July.

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.

3. These objectives are very demanding. The GGE/GDP ratio has fallen by over 7 percentage points since its recent peak in 1982-83. A combination of low spending and higher money GDP led to an unexpectedly sharp fall to 39½ per cent in 1988-89 and a further fall in the ratio is expected this year. Existing plans imply only a modest decline from now on. As John Major told Cabinet in July, the effects of lower unemployment are built into the baseline and we will not repeat last year's savings from extra receipts.

Progress in Bilaterals

4. The table at Annex A records the settlements I have been able to reach bilaterally. Annex B provides a brief description of each settlement. I am still discussing MAFP, OAL, Scotland and Wales but I expect to be able to settle them bilaterally.

5. In summary, discussions so far imply the following additions to baseline:

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		£ billion	
	1990-91	1991-92	1992-93
Additions agreed in Bilaterals	5.8	6.7	10.3
Aggregate External finance for local authorities (GB)	1.3	1.5	1.7
Community Charge transitional relief/safety net	0.3	0.6	0.3
Programmes still in bilateral discussion (expected outcome)	0.5	1.0	1.2
<hr/>			
Total additions to programmes	7.9	9.8	13.4

Substantial as these increases are, they reflect difficult decisions by a number of colleagues on their own programmes, for which I am grateful. The original bids for programme expenditure at the beginning of September were £13/17/23½ billion, for the three years of the Survey.

## SECRET

## ANNEX A

## AGREED PROGRAMMES

	1990-91	1990-91	1991-92	1991-92	1992-93	1992-93
	BASELINE	CHANGE	BASELINE	CHANGE	BASELINE	CHANGE
Ministry of Defence	21,187.0	0.0	22,101.0	215.0	22,653.0	750.0
FCO - Diplomatic, Information, Culture	841.0	52.7	884.0	61.5	906.0	58.6
FCO - ODA	1,627.0	76.5	1,692.0	107.7	1,734.0	137.0
Intervention Board for Agricultural Produce	1,342.0	-152.2	1,518.0	-157.4	1,556.0	-120.8
Forestry Commission	77.0	1.1	80.0	3.2	82.0	5.6
Trade and Industry	1,300.0	-54.3	1,155.0	-36.5	1,185.0	-148.8
Export Credits Guarantee Department	122.0	89.5	61.0	-1.1	63.0	-92.2
Energy	421.0	24.9	353.0	41.6	362.0	30.4
Department of Employment	3,887.0	-96.5	3,894.0	-215.0	3,991.0	-273.5
Department of Transport	2,645.0	425.0	2,724.0	525.0	2,792.0	550.0
DOE - Housing	5,737.0	605.7	6,157.0	569.3	6,311.0	533.6
DOE - Other Environmental Services	1,194.0	234.5	1,226.0	159.3	1,256.0	160.3
DOE - Property Services Agency	-138.0	82.1	-186.0	19.7	-191.0	-49.5
Aggregate external finance for LAs*	19,365.0	1,275.0	19,849.0	1,640.0	20,345.0	1,479.0
Home Office (inc. Charity Commission)	4,504.0	310.6	4,581.0	417.3	4,695.0	446.3
Legal departments	1,188.0	77.2	1,261.0	119.6	1,292.0	179.7
Department of Education and Science	5,824.0	781.0	5,932.0	868.0	6,080.0	861.0
Department of Health and OPCS	20,987.0	1,198.4	21,941.0	1,554.7	22,489.0	2,126.5
Department of Social Security	55,126.0	634.2	58,300.0	1,301.5	59,757.0	3,474.7
Northern Ireland: negotiable	5,855.0	109.8	5,866.0	146.5	6,013.0	173.5
Cabinet Office, Privy Council Office, etc	337.0	13.3	352.0	12.4	361.0	9.6
European Communities	1,950.0	-85.0	1,580.0	50.0	1,620.0	450.0
Nationalised Industries	-396.0	1,117.2	979.0	521.8	1,002.0	512.0
Territorial consequences		662.9		775.7		914.0
TOTAL ALREADY AGREED	154,782.0	7,423.8	162,300.0	8,773.8	166,354.0	11,243.0

\*Includes equivalent figures for Scotland and Wales. Excludes grants within AEF which are counted in other departmental programmes.

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SUMMARY OF AGREED PROGRAMMES

	1990-91	1991-92	£ million 1992-93
<u>Defence</u>	0	+215	+750

The addition for 1991-92 is not new money but represents Treasury contributions towards the cost of disposal by BNFL of pre-1971 wastes agreed in last year's Survey. The addition for 1992-93 represents a 3% increase in real terms in defence expenditure over 1989-90.

FCO - Diplomatic Wing

+53	+62	+59
-----	-----	-----

Increases provide for additional visa work, economic assistance for Poland, continuing UK contributions to peacekeeping forces in Iran/Iraq and Angola, scholarships and exchanges; security, relocation and overseas price movements.

FCO - ODA

+77	+108	+137
-----	------	------

Increases provide for continued support for economic reform in Nigeria, soft loans under new arrangements for Aid and Trade Provision, and increases to bilateral aid, including forestry initiatives.

IBAP

-152                      -157                      -121

Reductions reflect IBAP's latest forecast of expenditure, taking account of UK and EC harvest information.

Forestry Commission

+1                              +3                              +6

Additions are for superannuation, forest recreational facilities, and land purchases, offset by savings on planting grants.

Trade and Industry

-54                              -37                              -149

The main reductions are on science and technology spending, the business development initiative, regional enterprise grants and English Estates.

ECGD

+90                              -1                              -92

Changes result from changed assumptions about interest rates in the UK and abroad.

Energy

+25                      +42                      +30

The additions provide for increased expenditure on nuclear decommissioning and radioactive waste operations; extra R&D on renewable energy sources; and the setting up of the office for regulating the electricity industry following privatisation.

Employment

-97                      -215                      -274

Reductions in ET and YTS 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

*(New figures exclude BR and LHR)*

+425                      +525                      +550

The settlement of £1.5 billion over the three years is half the level of the original bids. It is consistent with the E(A) commitment to a substantial increase in the roads programme: roads expenditure in 1990-91 will be 30% above the 1989-90 level. It will also enable DTP to fulfil its commitment to eliminate road maintenance backlogs by 1992-93. Local authority bids were cut by two-thirds. In addition, the nationalised industry figures below include an extra £1.4 billion over the 3 years for transport.

DOE - Housing

+606                    +569                    +534

Additions provide for substantial real increases in the Housing Corporation grant to support subsidised rented housing by housing associations, and a £½ billion package of measures to ease homelessness. There are technical additions of nearly £½ billion a year (which do not affect GGE) resulting from the reform of the Housing Revenue Account Subsidy. Offsetting savings reflect higher New Towns housing receipts and the effects of proposed real-terms increases in council rents.

DOE - Other Environmental Services

+235                    +159                    +160

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

+82                    +20                    -50

For Property Holdings, additions provide for higher rents, major new works, some estate rationalisation, a further reduction in the maintenance backlog and major Parliamentary works projects; year 3 reductions reflect higher receipts. For Services, additions include IT capital expenditure, set-up costs of new design offices, and redundancy costs.

Home Office

+311                    +417                    +446

Settlement provides for a 10 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 7 per cent real growth in police grant in 1990-91 including an additional 1,100 police officers.

Lord Chancellor's and Law Officers' Departments

+77                    +120                    +180

For LCD, additions allow for the resource implications of the Civil and Competition Policy Initiatives, rising workloads in the county courts, and consequentials for 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

+781                    +868                    +861

Programmes agreed allow 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 maintained sector capital provision - largely for schools; and 9 per cent for higher education, to finance 27,000 more student awards than previously allowed for, allow an 8 per cent increase in academic pay, and help deal with deferred maintenance. They also allow for the cost of introducing top-up student loans in September 1990.



Department of Health and OPCS

+1198            +1555            +2127

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.

Department of Social Security

+634            +1302            +3475

Large estimating increases result in higher expenditure in 1992-93, particularly on pensioners and the disabled. Provision is also made for the impact of higher uprating assumptions. Higher benefits for poorer families and poorer pensioners, and abolition of the pensioners' earnings rule require extra provision. Expenditure on community charge benefit will be higher than on rate rebates. The net effect of changes in disability benefits will add to expenditure, particularly in later years. These increases are offset in part by the effects of lower unemployment. The Secretary of State has also decided to find savings through not uprating Child Benefit, and by tightening up the rules for recovery of maintenance from liable relatives.

Northern Ireland

+110            +147            +174

Additions include the cost of Shorts privatisation.

Nationalised Industries

+1117

+532

+512

Increased provision for British Railways and London Regional Transport will allow substantial new investment, including safety improvements. Real fares 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. Increased provision for Post Office because of expected level of tariff increases on letters business and additional capital requirements; reductions in year 3 from British Shipbuilders from disposal of remaining yards and assets; electricity prices will rise by 6½ per cent in 1990-91.



COMPTON

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CONFIDENTIAL



Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Nicholas Ridley MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1H 0ET

*W.B.P.M.*  
*BAC6*  
*23/10*

20 October 1989

*Dear Secretary of State,*

1989 SURVEY: DTI RUNNING COSTS

Thank you for your letter of 6 October.

I note your proposal to reduce your running cost bid by £1 million in 1990-91. I would have wished for more but am prepared to accept it as part of our overall agreement. Our officials can now settle the detailed figures.

I welcome your review of your department's policies, functions and efficiency which will be completed in time for the 1990 Survey and which you expect to produce significant running costs savings beyond 1990-91.

I am copying this letter to the Prime Minister.

*Yours sincerely,*

*P. Walters*

PP NORMAN LAMONT

*[Approved by the Chief Secretary  
and signed in his absence.]*

Econ Pol: Public  
Expenditure 1983



Mr

mt

PRIME MINISTER

PROGRESS WITH PUBLIC EXPENDITURE NEGOTIATIONS

During the last week the Chief Secretary has made good progress in completing negotiations on the remaining expenditure programmes. There will be no major issue for the Star Chamber to settle. We are on schedule for the Autumn Statement on 9 November.

Social Security is now virtually sorted out, including a package for the disabled. I hope to get a note to you about this before the uprating announcement next Wednesday.

Final details are also being sorted out on Defence, Scotland and Wales.

The most difficult programme has been Transport. But here too progress has been made:

- Agreement has today been reached on the roads programme, involving a total addition of £1.5 billion over the three years.
- Agreement has also been reached on British Rail and London Regional Transport, taking into account your views on the maximum acceptable fare increases.
- An extension of the Jubilee line into Docklands has been agreed. No extra money will be included in the Autumn Statement, but it will be provided subsequently from the Reserve. This is because the negotiations with Olympia and York on the contribution they will make will not be completed until 20 November, ie after the Autumn Statement, and if precise figures were included in that document it would prejudice the negotiations.

But there is one point still outstanding on Transport. The Treasury are arguing that nothing further needs to be considered

at this stage on the other two proposed London "mega" projects, ie. a east/west Cross Rail and a Chelsea/Hackney line. You will recall that at an earlier stage you felt we could only afford to plan this year for one of the three projects. Mr. Parkinson, however, feels that a decision in principle should be taken now to build a Chelsea/Hackney line, and that politically he must announce this at the same time as the late November announcement on the Jubilee line extension. He argues that if only the Jubilee line project is announced - which will simply benefit the Docklands - there will be uproar from commuters in the rest of London given the present levels of over-crowding on BR/LRT. By contrast the Chief Secretary sees no need for any announcement about Chelsea/Hackney at this stage and argues that consideration of it should await next year's survey when a detailed financial proposal can be considered.

To try to break this deadlock, Mr. Parkinson would like you to chair a meeting, to be attended amongst others by the Chancellor of the Duchy (who apparently supports his case for an early announcement). The Treasury are not keen on such a meeting and would prefer to continue to handle this bilaterally with Mr. Parkinson.

I hope they can do it.

My own feeling is that there would be major problems about an early announcement about Chelsea/Hackney, before the proposal has been properly looked at and without any clear indication of the likely costs. And given the magnitude of the other expenditure increases that will be reported in the Autumn Statement, I am not persuaded that an early announcement is necessary. But the point at issue is essentially political.

Further studies before decision can be reached

As regards handling, another possible approach would be to urge Mr. Parkinson and the Treasury to try to sort it out, but if they are unable to do so, to ask the Star Chamber to consider this point.

Conclusion

- (i) Are you content to chair a meeting to look at the Chelsea/Hackney issue? ~~Yes~~ Not necessary

OR

- (ii) Would you prefer to urge the Treasury and Mr. Parkinson to try to resolve the issue, and if need be refer it to the Star Chamber?

Yes

Recg

PAUL GRAY

20 October 1989



CONFIDENTIAL



*Me Pm*

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

13 October 1989

*Dear Carys,*

1989 PUBLIC EXPENDITURE SURVEY

The Prime Minister has seen the Chief Secretary's minute of 4 October. She agrees that it would now be appropriate to establish a small group of Ministers, under the Chairmanship of the Lord President, to consider any public expenditure issues that are still outstanding and to make recommendations to Cabinet.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and Trevor Woolley (Cabinet Office).

*Yours,  
Paul*

PAUL GRAY

Miss Carys Evans,  
Chief Secretary's Office.

CONFIDENTIAL

*Pm*



*Mr R*  
*se*

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBIN BUTLER

1989 PUBLIC EXPENDITURE SURVEY

You will see from my letter of today's date to Carys Evans, that the Prime Minister has now agreed that a small group of Ministers should consider any outstanding public expenditure issues.

I understand from Andrew Turnbull in Blackpool that the Chief Secretary has now reached agreement with the Secretary of State on the education and science programme. Against that background, the Prime Minister is content that the group should compose:

The Lord President of the Council  
Secretary of State for Employment  
Secretary of State for Trade and Industry  
Secretary of State for Education and Science  
Secretary of State for Health  
Chief Secretary of the Treasury

The Prime Minister would be grateful if you would now make the necessary arrangements.

*Pa.G.*

PAUL GRAY

13 October 1989

*Pa*

PRIME MINISTER

## 1989 PUBLIC EXPENDITURE SURVEY: STAR CHAMBER

The Chief Secretary is still in negotiations on Social Security, Defence, Transport, and Education. He is seeing Mr MacGregor tomorrow and is hopeful of settling that. While negotiations on the other three are continuing, the prospects for settlement are less clear. The Chief Secretary and the Chancellor both now think the time has come to constitute the Star Chamber. Cabinet Office are also keen to make the arrangements which would allow its work to start promptly next week.

The membership they have in mind is:

Lord President  
 Chief Secretary  
 S/S Health ✓  
 S/S Trade and Industry ✓  
 S/S Employment ✓

plus, if he has settled, S/S Education and Science. If Mr MacGregor has not settled they would prefer to have a group of five rather than add Mr Wakeham. The smaller group should be sufficient to cope with four programmes.

Content that the arrangements for setting up Star Chamber now be put in hand?

Content with membership?

Yes

Content not to replace Mr MacGregor if he has not settled?

AT

Yes

ms

ANDREW TURNBULL

11 October 1989

UNCLASSIFIED

CCPA



Treasury Chambers, Parliament Street SW1P 3AG

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MCC6

11/10

Stephen Crowne Esq  
 Private Secretary to the  
 Secretary of State for Education and Science  
 Department of Education and Science  
 Elizabeth House  
 York Road  
 London  
 SE1 7PH

10 October 1989

Dear Stephen,

**EDUCATION, SCIENCE AND ARTS COMMITTEE REPORT:  
 DES AND OAL EXPENDITURE PLANS**

Your Secretary of State's letter of 5 October sought comments on a draft reply to this report.

2 Treasury officials have suggested two changes as follows:

- (i) Paragraph 13 erroneously implies that growth in capital spending on the Science budget in 1989-90 has been deliberately reduced to 13.4 per cent. This impression should be removed by referring to "slippage in" expenditure on construction of a new research vessel, rather than to "the phasing of" this spending.
- (ii) The first half of paragraph 15 explains that the number of postgraduate studentships has fluctuated in recent years, but increased in 1988-89. It would be worth adding that this increase is expected to be maintained in 1989-90.

3 I am copying this letter to Paul Gray (No.10) Martin Le Jeune (OAL), the private secretaries to members of E(EP) and Trevor Woolley (Cabinet Office).

Yours,

Peter Wanless.

PETER WANLESS,  
 Assistant Private Secretary

ECON POL  
Public Exp

14 43



Mr Gray

PA

I don't think Mr Parkinson has done too badly to have got offers totalling £4.7 billion out of the Treasury so far.

Reference No: E 0750

MR WILSON

Rt.  
9/10.Transport PES

I asked the Treasury (Mrs Case) about progress on Transport in the Survey.

2. The bids, other than for nationalised industries, which were inherited by Mr Parkinson from Mr Channon, and confirmed by him, were (£m):

624	1038	1397	= 3059
-----	------	------	--------

At a bilateral last week, Mr Parkinson reduced them to:

538	721	941	= 2200
-----	-----	-----	--------

This was a reduction of about £800m over the period.

3. The Chief Secretary is writing today to offer an extra £1 billion over the three years, as against the £2.2 billion total of Mr Channon's revised bids. The difference is almost entirely on expenditure on roads. Mr Parkinson bases his case on the White Paper which listed projects with a total cost of £12 billion. The White Paper said nothing about the timescale of this investment, although in Press briefing Transport said the intention was to make it "within a decade". Mr Parkinson's bids are designed to start achieving that. The Treasury say that even the £1 billion they have offered would raise expenditure on roads by 42% between the current year and the end of the Survey period.

4. The two sides are still a long way apart and the Treasury say they see no sign of movement. They have advised the Chief Secretary to leave Transport on one side for the time being - and not for example try to negotiate with Mr Parkinson at Blackpool-while other programmes are settled.

5. As to the nationalised transport industries, the current bid is (£ billion):

1.2	1.6	1.9	4.7
-----	-----	-----	-----

The Treasury have offered

1.1	1.2	1.4	3.7
-----	-----	-----	-----

The argument has been largely about transport projects in London. There were three major ones: the Jubilee line extension to Docklands; the Chelsea-Hackney line; and the East-West crossing from Liverpool Street to Paddington. The Treasury have accepted the first, and Transport have dropped the second. The remaining issue, accounting for most of the difference between the two sets of figures above, concerns the third. The Treasury think that Mr Parkinson will eventually accept dropping the third (because, they believe, he would want to go to the Star Chamber only on roads), and they therefore expect to reach agreement on the nationalised industry part of his programme.

*G W*

G W MONGER

Economic Secretariat  
October 9, 1989

CONFIDENTIAL

CCP

NBRM  
RCL

Treasury Chambers, Parliament Street, SW1P 3AG 9/10

The Rt Hon Christopher Patten MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1

9 October 1989

*Dear Chris*

**CONSTRUCTION PRICES**

Thank you for your letter of 2 October, clarifying the information which your office have previously provided on this subject.

2 It is clear from the range that you quote (2-7 per cent) for 1989-90 that there remains some uncertainty about exactly how much faster prices will rise this year in the construction industry than in the economy as a whole. But you still envisage construction price inflation rising possibly up to twice as fast as general inflation this year; and I note that your minute of 22 September to the Prime Minister reported that all the leading employers are concerned about serious skill shortages in the construction industry.

3 However, the main point remains that the prospects for next year would be dramatically worsened if the massive bids originally made by colleagues were added to the existing prospective levels of demand. Whatever difference of view there may be, as you suggest, about the bounds of what is reasonable, these seem to me to fall clearly outside it. If construction industry overheating is not to remain a serious problem, they must be sharply scaled back and phased so that they are, and remain, at reasonable levels. I am grateful to those colleagues who have responded positively to the request in my letter of 15 September that they should all contribute to phasing demands on the industry in such a way that overheating is avoided.

4 I am copying this letter to the Prime Minister and to Cabinet colleagues.

*Norman Lamont*

NORMAN LAMONT



Even Rd - PES PR 43.



PRIME MINISTER

1989 PUBLIC EXPENDITURE SURVEY

You had the attached minute from the Chief Secretary in the Cabinet folder this week, and stressed to Cabinet members the point in paragraph 5 - namely the importance of agreeing with the Treasury any reference to expenditure issues in Party Conference speeches.

As previously agreed with the Chancellor and Chief Secretary, nothing was said in Cabinet about whether a Star Chamber Committee would now be set up (paragraph 3 of the attached minute). I gather from the Treasury that they are making reasonable progress on the key programmes that you discussed at the meeting earlier this week, but it is still thought quite possible that a Star Chamber will be needed to resolve some of them. In any event, the Chief Secretary would welcome in negotiating terms a letter going round to Cabinet colleagues indicating your agreement that the Committee should now be established.

Content for me to write out saying you agree it would now be appropriate to establish a small group, under the Lord President's chairmanship, to consider any issues that are still unresolved after the Party Conference and to make recommendations to Cabinet?

*Paul*

PAUL GRAY

6 October 1989

C:\WPDOCS\ECONOMIC\1989PES.DAS

*Yes*

*(provided he has agreed the relevant programmes with colleagues to be on Star Chamber)*

dti

the department for Enterprise

*ceph*

570

The Rt. Hon. Nicholas Ridley MP  
Secretary of State for Trade and Industry

The Rt Hon Norman Lamont Esq MP  
Chief Secretary  
HM Treasury  
Parliament Street  
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*NRLM*

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*6/10*

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Your ref  
Date 6 October 1989

*Dear Norman*

PES 1989: PROGRAMME EXPENDITURE AND RUNNING COSTS

I am pleased that we made such good progress on the proposals covering programme expenditure and running costs that I put forward at our bilateral on 14 September. Our officials are discussing the detailed allocation of the agreed overall provision between my Department's programmes.

Although the proposals I offered included increases in running costs, the net reductions on total DTI baselines remain very substantial at £-61.6 million, £-52.2 million and £-176.6 million. As you have kindly noted, reductions on this scale will be a helpful contribution to your overall PES settlement.

As promised, I have been looking again at my running cost bid for 1990/91. £4.3 million of the bid is in respect of VAT on rents which will not add to the net call on the Exchequer. A further £6.7 million is a one-off exceptional item for early retirements/redundancies at the National Engineering Laboratory needed to reduce staff numbers from 550 to 400 during the year. This rationalisation is based on recommendations by Touche Ross and is essential to the successful commercialisation and eventual privatisation of NEL. Net of these two components the bid represents an increase in DTI running costs over 1989/90 of 7.8% and 3.2% over baseline.

To contain the effects of the higher than expected increases in pay and accommodation costs, I have offered both an additional reduction in manpower of 70 (taking manpower to 120 below baseline) and to absorb further accommodation changes beyond the Department's control. In addition, however,



**dti**

the department for Enterprise



following careful examination, I am now prepared to pare the 1990/91 bid by a further £1 million to £347.9 million, if that would be helpful.

As I mentioned when we met, I shall be reviewing over the coming months the Department's policies, functions and efficiency and I have therefore sought only a one year settlement. I expect the reviews, which will be completed in time to inform my 1990 Survey bids next spring, to identify significant running cost savings beyond 1990/91.

I am copying this letter to the Prime Minister.

*John Gummer*  
*Secretary*



Recycled Paper





ELIZABETH HOUSE  
YORK ROAD  
LONDON SE1 7PH  
01-934 9000

cc PA

MBM

PLC6

SL10

Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1P 3AG

- 5 OCT 1989

Dear Norman,

EDUCATION, SCIENCE AND ARTS COMMITTEE REPORT: DES AND OAL  
EXPENDITURE PLANS

I attach a draft reply to the Education, Science and Arts Select Committee's report on DES and OAL expenditure plans, which was published in July.

The Committee's recommendations this year cover only a small range of topics. The draft response takes into account contributions from the other Departments most closely concerned.

I should like to publish the response as soon as possible, and - as in earlier years - as a Command Paper. I should be grateful to have any comments on the text by 10 October.

I am sending copies of this letter to the Prime Minister, the Minister for the Arts, members of E(EP), and to Sir Robin Butler.

Yours etc,  
JH

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DEPARTMENT OF EDUCATION AND SCIENCE AND OFFICE OF ARTS OF  
LIBRARIES EXPENDITURE PLANS 1989-90 TO 1991-92 (CM 612):  
GOVERNMENT RESPONSE TO THE SECOND REPORT FROM THE EDUCATION,  
SCIENCE AND ARTS COMMITTEE, SESSION 1988-89

Introduction

1. The Government welcomes the second report from the Education and Arts Committee on DES and OAL expenditure plans.
2. The Committee makes twelve recommendations in its Report on DES and OAL spending plans: this response sets out and comments on each recommendation in turn. The response, insofar as it relates to DES responsibilities for local authority education matters, refers to the position in England.

A: DEPARTMENT OF EDUCATION AND SCIENCE

Schools

We welcome the increase in expenditure on under fives, and the corresponding rise in under fives in education, and look forward to an accelerated rise in under fives provision in future years beyond 1989-90 (para 11).

3. The Government will continue to provide for the education of very young children within the constraints of available resources and after allowing for the major reforms initiated by the Education Reform Act (ERA). As noted in its response to the Committee's recent report on the under fives<sup>1</sup> the Government believes the private and voluntary sectors can make an important contribution to the fulfillment of demand for high quality

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<sup>1</sup> Educational Provision for the Under Fives. Observations by the Government and Local Authority Associations on the First Report of the Committee in Session 1988-89, paragraph 5, HC 324

nursery provision, and will seek ways to encourage this contribution. The development of all aspects of policy on nursery education will be informed by the report due next year from the Committee of Inquiry into the quality of the educational experience offered to the under fives.

Reliable quantitative performance measures must be devised if this Committee, or anyone else, is to be able to judge value for money in the expenditure of over £11 billion each year on schools. We look to the DES to publish proposals for such measures in time for next year's Public Expenditure White Paper (para 14).

4. The Government continues to regard the development of performance indicators as essential to the development of good management practice and a cost effective education service. The development of indicators is not of course an end in itself; the data generated must be set in a broader context and sensitively interpreted.

5. Preparations for the introduction of Local Management of Schools (LMS) from April 1990 have provided a stimulus by opening up the process of resource allocation within local education authorities to public scrutiny. Authorities are developing their own performance indicators to monitor spending and educational output at LEA and school level as management responsibilities are delegated to schools. They are required to set out their proposed monitoring arrangements in submitting their LMS schemes for the Secretary of State's approval. In preparation for their new responsibilities for budget management, school governing bodies have been encouraged, in part through Government-supported training materials, to develop indicators to monitor the effect of spending decisions. Such monitoring will also assist forward planning.

6. The Department has taken forward its pilot work with a group of authorities and headteachers exploring useful indicators for schools' internal management. A workshop took place this spring and the Department hopes to publish a discussion document



later this year. HMI has also been involved in evaluating and developing indicators.

7. The current major education reforms will make available a range of key quantitative data at national and local level. Section 22 of the ERA provides for the publication by schools of national examination results in a standardised format from Summer 1990 onwards. The publication by LEAs and the DES of National Curriculum aggregated assessment data, and the provision of information to parents about their child's assessment results with comparative data, will also add significantly to existing information. Financial statements (to be produced under Section 42 of the ERA) will for the first time provide summary data at a national level on planned and actual spending on individual schools.

8. Internationally, the UK is participating in an OECD project to develop indicators for monitoring and evaluating school education in member countries.

We urge the DES to keep spending on books and equipment under close scrutiny and to ensure that survey evidence is regularly made available about the quality and age of books in use (para 15).

9. The Government intends to keep spending on books and equipment under scrutiny, as part of its annual consideration of the pattern of spending by local authorities on education. This scrutiny is informed by the evidence provided by HM Inspectorate on the adequacy of the supply and state of books in schools. HMI reports on schools, and their annual "Standards in Education" report, comment on the provision of books and other teaching resources. Relevant information may also be provided by some Education Support Grant programmes - notably, in the 1990-91 programme, the Basic Curriculum and Assessment activity - which include provision for the purchase of books and other materials. Local Management of Schools will increase the ability of schools to match spending on books to their own assessment of priorities.

As with books and equipment, current spending on repairs and maintenance has risen by about one fifth in real terms since 1985-86. We welcome the improvement to the fabric of schools which this additional spending should bring about and, as with books and equipment, would welcome fuller information about the actual improvements achieved by this element of schools expenditure (para 16).

10. Various sources of information about the state of school buildings, and the impact of spending on repairs and maintenance, are already available. As with books and equipment, HM Inspectorate reports on schools, and their annual report, comment on the state of school premises. The Society of Chief Architects of Local Authorities publishes an annual report on the maintenance of local authority buildings, including schools. The Department's 1987 "Survey of School Buildings" reported the results of a special exercise involving a national sample survey of the school building stock. However, major national surveys of this kind cannot be carried out on a frequent basis. The main need for information is at local level, given that LEAs have primary responsibility for keeping the state of their school buildings under review.

We strongly recommend that the 1990-91 RSG settlement should take full account of any pay settlement for the year, particularly as pay levels are determined by central Government (para 18).

11. The Government's 1989-90 spending plans allowed for all save £55 million (net of savings on superannuation) of the cost of the 1989-90 teachers' pay settlement. That £55 million represented the additional cost of the settlement over the remit originally given to the Interim Advisory Committee (IAC), and was equivalent to less than 0.4% of education provision. The Government notes that the Committee would not favour the abandonment of cash limits or automatic uprating for inflation. For 1990-91 the Government intends to make provision within total education standard spending for a teachers' pay award at a level consistent with the remit given to the IAC on 26 September.

We would expect future White Papers to make it clear if any change in the scale of use of specific grants was contemplated (para 19).

12. The size and nature of specific grants for education spending will continue to be decided as part of the annual determination of public spending and reported to Parliament in the Public Expenditure White Papers. The Secretary of State remains bound to consult appropriate bodies representing LEAs before making regulations governing the Education Support Grant programme. The Committee might also wish to be aware that the Department is conducting an efficiency scrutiny of its principal specific grant programmes.

#### The Science Budget

We regret that the planned increase on capital has subsequently been reduced to 13.4 per cent as a result of the postponement of the construction of a new research vessel for the British Antarctic Survey to the next financial year (involving some £8m). We recommend that this £8m is reinstated in the science budget for next year (para 26).

13. The Science Budget was reduced by £8.493m in 1989-90 because of the phasing of expenditure on the construction of a new research vessel for the British Antarctic Survey. Provision for science in 1990-91 will be determined in this year's public expenditure survey in the usual way.

We welcome the construction of a simple and robust measure of science costs, and we recommend that every effort be made to publish separate indices for current and for capital items, as well as an overall science expenditure index (para 29).

14. The Department is continuing to investigate the feasibility of constructing a robust index of science costs. Initially this work is addressing recurrent costs. The technical problems associated with the construction of an index, particularly where capital equipment is concerned, are

considerable. At this stage the Department is doubtful whether a robust and simple measure of science costs, whether or not split between current and capital items, can be devised.

We find the fall in manpower training revealed by these figures [of the overall number of postgraduate studentships] to be disappointing, particularly at a time of increasing resources, and look forward to receiving the results of the Research Councils' investigations as to the reasons (para 30).

15. The figures presented to the Committee were taken from a report produced by the Research Councils earlier this year. These figures have now been revised. They show similar but less marked fluctuations in take-up between 1983-84 and 1987-88. More significantly, they show an increase in take-up of awards in 1988-89 instead of a decrease.

1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
6187	6037	6245	6261	6079	6217

Despite the overall increase in 1988-89 there was a decline in the take-up of SERC's CASE awards and of awards in some other fields, as outlined in the Department's submission to the Committee. The Councils plan to commission a study of the factors influencing students' decisions on whether or not to embark on postgraduate study: it is hoped that this will explain the differences in take-up between subjects and between advanced course and research studentships.

We would welcome the publication of at least some of the performance indicators for science referred to in paragraph 64 of Cm 612. Where such indicators are published, it is essential that a time-series is given for all the years covered by the White Paper (para 31).

16. The Department will invite the Working Group on Output and Performance Indicators to consider the publication of some of the indicators which they have developed, in the form suggested by the Committee.

## Presentation

We recommend that the DES ensures that future White Papers allow consistent comparisons to be made over the full period of the particular White Paper of all items within the programme (para 33).

17. The Government aims to make the Public Expenditure White Papers as clear and informative as possible. The components of the main table in the White Paper which sets out the expenditure plans of the DES have naturally been subject to changes over the course of time because of developments within education which have affected central and local government funding. When it has been possible to present these changes over the full period of the White Paper, this has been done. There may however be occasions when the nature of the spending concerned makes such a full comparison impossible, as was the case with the creation of the PCFC sector.

We would expect to be consulted on the proposed presentation of the main education and science table in the White Paper when decisions come to be made about its future (para 34).

18. The DES chapter of the 1990 PEWP will continue to provide the information displayed in the main table of the 1989 DES chapter, but the format will reflect the introduction of the New Planning Total. From 1991 departmental reports will replace the departmental chapters of the PEWP; there are no plans at present for any further changes in the table's format at that stage.

## B: OFFICE OF ARTS AND LIBRARIES

### Overall trends

We are concerned at the effect that an unexpected level of inflation could have on the three-year funding system. This cannot be judged on one year's figure alone. We therefore recommend that, at the end of the first triennium (ie 1990-1991), the operation of the system should be reviewed (para 37).

19. The Government notes the Committee's view. It was always the Government's intention that the operation of three-year funding should be monitored, for example in the context of discussions with arts NDPBs of their corporate plans. The institutions have welcomed the clearer planning framework which the introduction of the three-year funding has provided.

### Regional policy

We welcome the evidence that the abolition of the metropolitan authorities has not harmed arts provision in those areas and look forward to a continued commitment by local authorities to the arts (para 41).

20. The Government notes the Committee's view.

### Information in the White Paper

We note that the OAL have only partially acceded to the Committee's request in last year's Report for certain extra items of information to be included in the OAL chapter of the White Paper, including separate figures for OAL capital spending, figures for local authority performing arts spending, and figures for grants to OAL's major clients. We ask the OAL to look again at the possibility of including the extra information suggested (para 43).

21. The Government notes the Committee's request and will examine further the possibility of including the information

suggested in the Public Expenditure White Paper.







SECRET

CF - pe. - public expenditure  
 Feb 3 (a-i)  
 6/10

**PUBLIC EXPENDITURE SURVEY : PROGRESS REPORT**

Introduction

As expected, very difficult Survey - probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes.

2. July Cabinet agreed that top priority was to defeat inflation. Remit was to :-

- maintain downward trend in GGE ratio (ex pp).
- stick "as close as possible to existing plans".

(Necessarily vague, given change in definition of planning total.)

3. Starting point is existing plans which imply only modest decline in ratio. Low expenditure and higher money GDP pushed ratio down in 1988-89. Could happen again this year, to some extent (though spending not likely to undershoot). Recognised therefore that might be a blip up in the ratio in 1990-91. But all the more important to have some decline thereafter.

4. Even this ambition now at risk. Since July, total bids risen. Anything for the Community Charge would be extra.

**BILATERALS**

5. First round bilaterals on all programmes; second round meetings on some.

(i) Virtually Settled : DTI, Northern Ireland, Department of Energy.

(ii) Entered serious negotiations on Health, Defence, Home Office, Wales, FCO, Employment. DOE.

(iii) Proving difficult : Transport (including Nationalised Industries), Education, MAFF, Scotland. Some difficult specific policy issues on Social Security.

#### LIKELY SURVEY OUTCOME

6. Excluding any addition for the Community Charge, forecast outcome of Survey implies:-

- Substantial cash additions to GGE.
- Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up).
- Real growth in GGE over Survey period broadly the same as that of real GDP ie well above 1½ per cent achieved between 1978-79 and 1989-90.

Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education. Chief Secretary pressing very hard on individual programmes but unlikely to do better in aggregate. Anything extra for Community Charge adds directly to planning total on new definition, and likely to push up general government spending.

#### KEY OUTSTANDING ISSUES

7. (i) Social Security: Child benefit - Treasury seeking further one year freeze, and to end present uprating assumption in PEWP in years 2 and 3. Law Officers advising on uprating assumption. Unemployment benefit - Treasury option to replace UB by income support after six (rather than twelve) months requires primary legislation. Disability - scale of package needed this year to respond to OPCS and contain long term upward trend in spending. Department bidding for amounts

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rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

- (ii) **Transport:** (Total road and rail bids about £6½ billion over three Survey years.) Affordable scale of extra spending on roads, following E(A) and White Paper commitment, given risk of construction overheating. Cost overruns, particularly on Channel tunnel related rail investment. Large bids, additional to those for safety, for London Transport. Realism and affordability of commitment this year to three new London rail mega-projects. These must be handled in Survey. Strong case for going ahead with improvement in existing LRT lines and with the Jubilee Line extension for Canary Wharf (subject to satisfactory O & Y contribution), but postponing East-West Crossrail and Chelsea Hackney. (Department wants to introduce two private Bills this November.)
  
- (iii) **Environment :** How much extra can be afforded this year to meet preferences for subsidised housing to complement possible homelessness package. Consistency with past policy and market orientated approach; no public policy commitments; steeply rising (Housing Corporation) baseline. How much can be afforded for UDCs etc given escalating cost of Docklands transport.
  
- (iv) **Education :** Affordability. A wide range of very large bids on higher education, science, schools capital. Big gap remains, especially on schools capital and science.
  
- (v) **Defence :** Extent to which effects of higher inflation can be absorbed by achieving 2½% efficiency savings promised at Prime Minister's VFM seminar.
  
- (vi) **ODA :** whether overseas aid should maintain its share of GNP, when public expenditure as a whole is falling as a proportion of national income.

*d*

- (vii) Employment : Scale of reduction in baseline to reflect lower unemployment, demography, need for employers to contribute more towards training, and scope for limiting access to ET by groups not covered by manifesto guarantees.
  
- (viii) Scotland : How vigorously to pursue reductions in Scottish over-provision eg by adjusting population base or disallowing bids on block or absorbing part of AEG settlement within block.
  
- (ix) OAL : Seeking to re-open generous 1987 3-year deal. Strong arts and museums lobbying.
  
- (x) Central government support for local government capital spending (relevant especially to Education, DOE) : Extent to which Central Government should signal need for restraint on LA capital spending, by holding down Central Government support (credit approvals, grant). Huge overspend this year. Risk that receipts could start to fall away after 1991-92, but ample accumulated receipts in 1990-91. Low priority of much LA spending.
  
- (xi) Running costs : Growth in 1990-91 likely to be nearly 10%. Real pay pressures, but need for maximum efforts to absorb through greater efficiency gains. Large executive departments should aim for over 1½% target.

**PROGRESS IN INDIVIDUAL BILATERALS****DEFENCE**

MOD increased their bids substantially following the revised inflation assumptions issued in July. They made some reductions following the first bilateral, but still seek to reopen 3 year settlement. Reasonable possibility of settling outside Star Chamber, but large gap still remains in years 2 and 3 following second bilateral.

Main issue : impact of higher inflation and scope for efficiency savings, to offset it.

**FCO - DIPLOMATIC**

Bids substantial - mainly running costs. Settlement probably possible, linked to acceptable deal on aid.

Main issue : scope for pruning lower priority diplomatic service activity to offset rising costs.

**FCO - OVERSEAS DEVELOPMENT ADMINISTRATION**

Large bids to meet existing commitments and new demands which would increase overseas aid as proportion of GNP. Still significant gaps to be bridged at second bilateral.

Main issue : how far overall programme needs to grow in real terms, allowing flexibility for new initiatives (eg on environment) in addition to commitments (eg Nigeria), and whether in addition it needs to maintain/increase its share of GNP.

**AGRICULTURE**

Reductions offered on CAP due to prospects for harvest; but

f

substantial new bids for domestic agriculture. No significant savings offered at first bilateral.

**TRADE AND INDUSTRY**

Virtually settled. Mr Ridley has offered substantial savings below baseline, though with some increases (not finally settled) on running costs. Details to be tied up in correspondence.

**ENERGY**

Settled close to baseline on departmental programme. Electricity privatisation precludes firm decisions on Nationalised Industries pending contract negotiations. Major long term threats on Coal, but, as working assumption, stick to baseline for Autumn Statement. Electricity EFL still to be decided.

**EMPLOYMENT**

Following first bilateral, Mr Fowler reduced bids and offered savings to stay roughly on baseline (somewhat over in year 3). Treasury looking for substantial reductions below baseline in all years. Could go to Star Chamber.

**TRANSPORT (including Nationalised Industries)**

Road and rail bids total some £6½ billion. Treasury accept case for significant increase, but want substantial reductions in bids, on grounds of realism and construction prices, as well as affordability. Unlikely to settle without collective discussion.

Issues : Department not moving from £3 billion road bid justified by higher construction costs, early start to expanded road programme following White Paper. Little progress on rail. Department bidding to cover escalating costs, particularly of Channel tunnel related rail investment (including property blight in Kent). Also large new bids for London Transport (on top of safety). No substantive discussion yet possible on 3 rail mega-projects (EW Crossrail and Chelsea Hackney to relieve congestion

plus Jubilee line extension for Canary Wharf). Department wants private Bills on 2 mega-projects this November (including Jubilee line). (Uncertainties about financing and timing of construction of Channel fixed link could be relevant).

**ENVIRONMENT**

Very large bids for housing, local environmental services, urban spending (including LDDC). Department has moved, but significant gap remains on housing and local environmental services.

Issues : Department wants significant increase in subsidised housing as well as homelessness package. Treasury resisting former on grounds of realism and affordability. Huge bids for local environmental services (in practice largely LA administrative buildings and leisure centres as well as more important waste disposal items) to cushion possible, but uncertain, impact of lower receipts. Scope for offsetting escalating cost of Docklands transport (where latest reports suggest Rosehaugh Stanhope may be wavering on Royals).

**HOME OFFICE**

Progress on key issues, but still some way to go. Settlement likely.

Issues : Implication of lower prison population projections (allowing surplus of places in 1992-93) for spending on new and existing prisons. Scale of additional police manpower needed to meet public commitments.

**EDUCATION**

Could be long slow negotiation, possibly to Star Chamber. Mr Baker submitted wide range of very large bids for higher education, science, schools capital, and other minor items. Mr MacGregor offered only small reductions so far, leaving big gap on science and schools capital.

h

OFFICE OF ARTS AND LIBRARIES

Mr Luce seeking to reopen 3 year deal agreed in 1987 (rolled forward last year). First bilateral 3 October.

Issue : effect of inflation on 3 year deal.

HEALTH

Constructive progress, early settlement likely. Substantial additions (over £1 billion in 1990-91) unavoidable to implement NHS review and maintain reasonable level of service growth.

Issue is scale, in face of inevitable uncertainties about likely costs of review.

SOCIAL SECURITY

Additions since April 1988, including agreed benefit bids, worth £1 billion in 1990-91. Discussion narrowed down to a few key issues which will need to be referred to colleagues.

Issues : Child benefit. Treasury want further 1 year freeze, with protection for poorer families, and to reverse present uprating assumptions in PEWP for years 2 and 3. Annual upratings would still need policy decisions. Law Officers advising on this. Unemployment benefit. Department question politics of Treasury option to replace UB by income support after 6 months (now 12). Needs primary legislation. Disability. Need to respond to OPCS report and contain sharp long-term upward trend in spending. In July John Major proposed a £100 million package to meet key pressure points, in return for longer term action to reduce real growth in spending on disability. Department now bidding for amounts rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

SCOTLAND

Mr Rifkind's unwillingness to discuss ways of reducing over



provision led to postponement of first bilateral. Could go to Star Chamber.

Issue: Mr Rifkind seeking extra provision, beyond formula consequential of comparable English increases; Treasury seeking to reduce Scottish over provision, either by an adjustment for diverging trends in population, or by other means. Bids outside block unlikely to cause trouble.

#### WALES

At first bilateral Mr Walker showed signs of willingness to moderate bids. Settlement likely.

Issues : Mr Walker has bid for programmes normally covered by the block arrangements (as well as for expanded industry programmes, including RSA).

#### NORTHERN IRELAND

Settled. Additions for Shorts and social security. (Mr Brooke withdrew some bids and agreed to absorb others).

#### RUNNING COSTS

Total of departments' bids would represent over 11 per cent increase in running costs in 1990-91 compared with 1989-90. Real pay pressures will make it difficult to reduce this much below 10 per cent. Main issue is scope for efficiency gains to offset pay and price increases, and extent to which these can be taken as expenditure savings.

SUBJECT CC MASTER

File SW

2a-c



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 October 1989

Dear Sir,

**PUBLIC EXPENDITURE**

The Prime Minister held a meeting this afternoon to discuss the position reached in the Public Expenditure Survey discussions. Those present were the Lord President, Chancellor, Chief Secretary and Sir Robin Butler and Mr. Richard Wilson (Cabinet Office).

I should be grateful if you and copy recipients would ensure that this letter is seen only by a strictly limited number of named individuals.

The Chancellor and Chief Secretary explained that this was proving an exceptionally difficult public expenditure round. Even if extremely tough settlements were reached in all cases the prospect was for very large additions to the planning total and general government expenditure. It also seemed inevitable that the general government expenditure/GDP ratio would increase substantially between 1989/90 and 1990/91, and might only just get back to the 1989/90 figure by 1992/93.

Discussion then turned to a selection of individual programmes. The Chief Secretary said that a settlement had already been reached with the Secretary of State for Trade and Industry and that negotiations were proceeding reasonably satisfactorily in the cases of Health, Environment and the Home Office. He hoped to be able to reach settlements in all these cases. However much greater difficulties were being experienced in a number of other areas.

Transport

The Chief Secretary said that total bids over the three years of the Survey totalled some £6.6 billion and were equivalent in 1990/91 to some 23 per cent of the base line. There was no way that bids on this scale could be accommodated. The Prime Minister agreed that the bids would have to be substantially reduced, both to reflect to what could be afforded and given the implications of the bids for pressure on the construction industry.

Industry - ? Defence?

The Chief Secretary said that difficulties had arisen because

b

the Secretary of State wished to reopen the earlier three year settlement. But this was unacceptable because the Department had failed to achieve the planned 2.5% efficiency savings, and were in any event continuing to under-spend the budget. The Prime Minister commented that it would simply not be possible, given the overall position, to put up defence expenditure in this Survey.

#### Education

The Chief Secretary said that the present Secretary of State was continuing to press the very large bids submitted by his predecessor of well over £1 billion in each year. The Prime Minister commented that bids of this scale were clearly unaffordable. She said that the Secretary of State had mentioned separately to her his desire not to press ahead rapidly with further funding of City Technology Colleges, and that he would prefer to give priority to the funding of grant-maintained schools and the science budget. She sympathised with these priorities. It was also noted in discussion that as and when demographic trends led to a renewed increase in the school population the appropriate response to this would be to permit some increase in pupil/teacher ratios.

#### Employment

The Chief Secretary said he was looking for net savings below base line of around £100 million in 1990/91 and some £200 million in 1991/91, via a scaling down of Employment Training and Youth Training. The Prime Minister agreed that savings should be pursued in this programme, given the background of much reduced unemployment.

#### Social Security

The Chief Secretary said that large bids were unavoidable, particularly those resulting from the higher than expected RPI. But difficult decisions were necessary on a complex set of policy issues. The Secretary of State was pressing a large package of assistance for the disabled, costing some £500 million. The Chief Secretary thought that some extra help for the disabled would need to be conceded, but he was seeking to persuade the Secretary of State to accept a very much smaller sum. If so, this could still only be afforded if policy savings were made in other areas; first by continuing the freeze of child benefit, either for one year or all three years of the survey, and second by reducing the period of eligibility for unemployment benefit from 12 months to 6 months.

The Prime Minister said that she agreed an increase in child benefit could not be afforded in the coming year, although some of the resulting saving would need to be re-deployed to additional family credit. She also felt that, in the longer term, consideration needed to be given to some return to a system of child tax allowances. As regards reducing the period of entitlement to unemployment benefit, she had serious doubts; this would be very difficult for the Government to present.

#### Other Issues

Discussion then turned to the possibility that, if the Chief

Secretary was unable to reach agreement bilaterally with all colleagues on the outstanding programmes it might be necessary to establish a "Star Chamber" committee under the Lord President's chairmanship. If this did prove necessary it was agreed that, in addition to the Lord President and Chief Secretary, the Secretary of State for Trade and Industry should be a member. There would also be advantage in appointing the Secretaries of State for Health and Employment as members if, as was hoped, their programmes could be settled bilaterally. The sixth member of the committee might be the Secretary of State for Education and Science, although whether his programme could be settled bilaterally was in considerably greater doubt. If it could not, the options would be either to do without a sixth member, or to consider the possibilities of the Secretary of State for Energy or the Secretary of State for Northern Ireland.

It was agreed that, should the Star Chamber need to meet it should start its work immediately after the Conservative Party Conference. There was however no need for this to be raised at Cabinet on 5 October; the possibility of establishing the committee had already been covered in the July Cabinet public expenditure discussions. The aim should be to complete all the public expenditure negotiations so that the outcome could be endorsed by Cabinet on 9 November, with an announcement the same afternoon. If this timetable could not be achieved the fall-back date would be 16 November.

I am sending copies of this letter to the Private Secretaries of the Ministers attending and to the others present.

*Yam.*  
*Paul*

(PAUL GRAY)

John Gieve, Esq.,  
HM Treasury.

A

CONFIDENTIAL



FROM: CHIEF SECRETARY  
DATE: 4 October 1989

PRIME MINISTER

1989 PUBLIC EXPENDITURE SURVEY

At its meeting on 12 July, Cabinet adopted the objectives of maintaining the downward trend in the ratio of public spending (excluding privatisation proceeds) to GDP, and holding as close as possible to existing plans. It is against the background of these objectives that I have been conducting bilateral discussions with departmental Ministers.

2. I have now had at least one discussion with nearly all colleagues and it has been possible to make a substantial degree of progress in reducing the number of outstanding issues. A number of departmental programmes have been settled; others are close to settlement. I will be continuing discussions with colleagues over the next few days. However, it is clear that on some programmes some difficult issues remain.

3. Cabinet agreed in July that, if it was impossible to reach agreement on all programmes bilaterally, you would establish a small group of colleagues to consider the outstanding issues and make recommendations to Cabinet. You may feel that it would now be appropriate to establish such a group so that it can begin work after the Party Conference on any questions which by then are still unresolved.

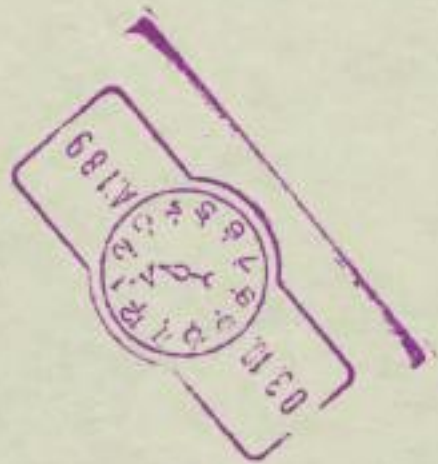
4. As in previous years, I will ensure that the outcome on all programmes and the main policy changes involved are reported to Cabinet at the end of the Survey.

5. While negotiations continue on a significant number of programmes, I would be grateful if all colleagues could agree with the Treasury any references they may make in their Party Conference speeches to policy changes with expenditure implications.

6. I am sending copies of this minute to Cabinet colleagues, the Ministers for the Arts and for Overseas Development, the Attorney General, the Lord Advocate and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'N. Lamont'.

NORMAN LAMONT



CONFIDENTIAL

1a-c  
 [Handwritten signature]

PRIME MINISTERPUBLIC EXPENDITURE

You are seeing the Chancellor, Chief Secretary, Lord President, Sir Robin Butler and Richard Wilson tomorrow afternoon to discuss the state of play in the public expenditure negotiations. (This meeting precedes your regular bilateral with the Chancellor, for which a separate folder is in the box.)

There is no paper yet available for the meeting, but the Chancellor may hand a note round when he arrives. The sort of points that will be brought out in the note, and what the Chancellor and Chief Secretary have to say include:

- on any basis there will be massive cash increases in the new planning total;
- a significant "blip" in the general Government expenditure/GDP rate is also inevitable in 1990-91;
- and these outcomes will occur even if a series of tough outcomes is achieved for key programmes;
- the main problem areas are:
  - Transport, where Mr. Parkinson's average annual bid is some £2 billion;
  - Social security, where difficult decisions include whether to freeze child benefit again, whether to agree Mr. Newton's bid for a substantial package for the disabled, and whether to pursue the Treasury option by *for* reducing the period of unemployment benefit entitlement;
  - Defence, where Mr. King is seeking to reopen the 3-year deal and has a large bid for the new final year;
  - The DOE programmes where, community charge apart, Mr. Patten has very large bids;

How much

- DES, where Mr. MacGregor initially maintained all Mr. Baker's bids and is negotiating for them hard;
- Health, where perhaps surprisingly the negotiations are going quite well, although a settlement has still to be reached.

b

You will want to decide to what extent to give steers on any of these programmes. What is clear is that, if the Star Chamber does have to meet it will face a very tough task. It is probably too soon however to think in terms of what specific remit it should work to.

But it would be worth tomorrow having an initial discussion on who the members of the Star Chamber might be should the group prove necessary. <sup>The</sup> tradition in the years up to 1986, the last year there was a full Star Chamber exercise, was to have six members (plus the Chief Whip if he wished to attend), although in 1984 when Mr. Tebbit had to withdraw after the Brighton bomb, the group managed with just five members. So, assuming the target is six that means choosing four to add to the Lord President and the Chief Secretary:

- ✓ Mr. Ridley has already settled, and I think the Treasury would be keen to have him. I think that would be a very good choice;
- ✓ Mr. Clarke is the only person around (apart from John MacGregor) who has served on previous Star Chambers. In earlier years he was a valuable member, deploying his cross-examination techniques to excellent effect. So, if the health programme could be settled, he would also be a good choice;
- there are only three obvious candidates for the remaining two places, namely Messrs. MacGregor, Fowler and Wakeham. Ideally the Treasury would prefer the first two. But it may be difficult to secure settlements with Mr. MacGregor, given his remaining large bids, and Mr. Fowler, from whom the Treasury are looking for large net savings.



You will also want to consider tomorrow what if anything should be said in E(LG) on Wednesday and in Cabinet on Thursday about the implications of the new community charge package in other public expenditure programmes. Does the Chancellor want to raise this in Cabinet on Thursday?

~~\_\_\_\_\_~~

Recg.

(PAUL GRAY)

2 October 1989

Revenue props 1 p.e./a.p.

1986 38.5% - /46 - /56

89 - /66 /86 - ~~8~~  
{8.7}

ITI -

Health -

Trans. - 2.2 2.2 2.2

3.6 ~~Sub~~ Out

Det -

Ed<sup>n</sup> - 1.2 1.5 1.7

Env. -

Soc Sec. -

Empl

Debt Interest



**CONFIDENTIAL**

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:

Your ref:

The Rt Hon Norman Lamont MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

*MBM*  
*RACG*  
*2/10*

2 October 1989

*Dear Chief Secretary*

Thank you for your letter of 15 September.

*and request is required*

I am afraid the figures for construction prices which I gave you in my letter of 8 September were a year wrong. Construction industry prices were rising 6%-7% faster than the RPI in the last financial year 1988/89, not the present year. The best estimate for 1989/90 is that price inflation is moderating and is now between 2% and 7% faster than general inflation, and coming down. In 1990/91 construction prices are likely to slow to the general rate of inflation. I attach a summary page from the full paper circulated in parallel with my previous letter at official level, which set out these dates correctly.

The conclusion I would draw from these figures is that the industry has coped reasonably with a limited period of sharp growth of output, without excessive inflation (particularly bearing in mind the softening of prices and tenders earlier in the decade). The current reduction of pressure seems likely to leave some margin of spare capacity by 1990/91. But pressure has not been evenly spread between different sub-sectors of construction; so the available margin in different sub-sectors for the next year may vary.

So far as my own capital bids for housing and other services are concerned I see no reason to think that the additional investment implied would have a significant effect on our forecast for construction prices. I believe the housing industry in particular would now be well able to take up the modest increase in output which I have proposed. Obviously, I cannot comment in detail on the capacity of the relevant sub-sections of the industry to

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absorb the capital bids made by other colleagues. But in view of the general reduction in the pace of construction price inflation it would seem that most of the industry should be able to accommodate a reasonable level of capital bids without causing construction prices to accelerate ahead of general inflation again. I realise that, at this time of year in particular, there will be several different views on what is and is not reasonable.

/ Copies go to the Prime Minister and Cabinet colleagues.

*Yours sincerely,*

*RB*

CHRIS PATTEN

*PP (approved by the Secretary of State and signed in his absence).*

## CONSTRUCTION INDUSTRY: PRICES AND DEMAND PRESSURES

### Summary

1. There is no good estimate of the capacity of the construction industry. Nonetheless, it appears that the industry has been fairly fully if not uniformly stretched throughout 1988 and into 1989. The degree of stretch is now becoming less. By 1990/91 output should have ceased to rise, and might even fall very marginally.
2. The Secretary of State's letter to the Chief Secretary of 31 August 1988 looked forward to construction price rises 5-10% above general inflation in 1988/89. That forecast has been borne out. The August 1988 letter also spoke of this excess over general inflation tailing off into 1989/90 and later years. The current best guess is that construction prices this year will rise 2-7% more than general inflation, and that in 1990/91 there might be a range from a little below general inflation to a small percentage above it.
3. Private housing work has tailed off. Commercial construction is very vigorous, notably in the South-East. There are no particularly sharp sectoral or regional constraints on the industry. Amongst technical specialisms, the previous signs of shortage of mechanical and electrical work capacity in the South-East have faded. In civil engineering some specialisms may still give cause for concern.
4. Expected growth in road, railway, water, sewage and other infrastructure work over the rest of the century, coupled with continued long-term strength of housing demand, points to a need to continue the expansion of the construction industry. Our current guess is that the critical constraint may be in recruiting suitably qualified managers and technical staff.

Note: The dates above should be used in place of those in the letter of 8 September 1989.



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PRIME MINISTER 1

CF po.  
BLC  
2/12

## DISCUSSION WITH TREASURY MINISTERS ON PUBLIC EXPENDITURE

I have arranged a meeting next Tuesday afternoon with the Chancellor and the Chief Secretary to take stock of the position in the public expenditure negotiations. This will take place after your normal bilateral with the Chancellor. It will also be on the day before the E(LG) discussion on the community charge. That will enable you to discuss what, if anything, should be said in E(LG) and in Cabinet next Thursday about the implications for other public expenditure programmes of whatever community charge package emerges.

You will want to consider who, if anybody, should attend Tuesday's meeting apart from the Chancellor and Chief Secretary. The parallel meeting a year ago was also attended by Mr. Parkinson, as prospective Chairman of the Star Chamber, Sir Robin Butler and Richard Wilson (who, if the Star Chamber is required, will be its secretary). The rationale for their attendance was so that they were aware of the broad prospects for the Star Chamber.

So there are two points on attendance:

- (i) should the Lord President attend?
- (ii) should Sir Robin Butler and Richard Wilson attend?

Neither the Chancellor nor the Chief Secretary are pressing for the Lord President to come, but would be content if that is what you preferred.

One other point to bear in mind is that you will be seeing the Lord President at Chequers on Sunday afternoon.

Who would you like to come?

*PLG*  
PAUL GRAY

29 September 1989

*Approved.*  
*PLG*  
*2/12*

| I think we LP and Sir R B  
and R Wilson. Should  
all attend not

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*Edwin Par  
PES*

Ministry of Agriculture, Fisheries and Food  
Whitehall Place, London SW1A 2HH

From the Minister

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Minister at this stage*

*Rec 6  
28/9*

18 September 1989

*Dear Chief Secretary,*

We have recently had to bid for extra resources for Kew Gardens in this year's PES round. Additional funding is required for an extension of the Jodrell Laboratory and Development of the Victoria Gate made up as follows: 1990/91 Victoria Gate £0.6M, Jodrell £1.0M, 1991/92 Victoria Gate £1.04M, Jodrell £0.78M.

X/ Following her visit to Kew on 16 June, the Prime Minister queried the sufficiency of the £10.6M grant in aid. She also spoke to Lady Trumpington at Chequers about the excellent research work being carried out there. Although this work has been deliberately protected from the heavy cuts in our research budget in recent years, and the grant has increased in line with the Treasury's forecasts of increases in costs, there is now a case for a further increase because costs have increased faster than expected.

Kew is recognised worldwide as the pre-eminent centre of excellence for the scientific study of plants and the Jodrell Laboratory is a most vital component in this work. It is essential for the Jodrell to maintain its pre-eminence. In order to do so, the Laboratory needs to improve, modernise and rationalise its facilities and to develop and integrate new research initiatives. Most importantly it needs to be able to develop work on molecular systematics, biochemical screening and conservation technology in order to take advantage of outside funding, particularly from the pharmaceutical and chemical industries (where there is considerable interest in the screening of plants for compounds of use in medicine and agriculture).

/Development of the ...



Castle OLR

Is there any truth in X? The  
file reveals nothing. Yes - F  
believe so. Lady Thompson  
wrote it about the funding  
(saying it was graph) and  
the PM did not disagree. CTS

Development of the Victoria Gate is needed to provide greatly improved and safer entrance facilities in order to increase visitor numbers and consequently income. The proposal stems from a survey carried out for Royal Botanical Gardens in 1987. The Trustees see the development as enabling them more effectively to carry out their responsibilities under the National Heritage Act 1983 to afford entry to the Gardens by members of the public, both for education and recreational purposes, while at the same time seeking to increase earnings from visitors.

These two projects form an important part of RBG's strategy for revenue generation being developed in the first update of its Corporate Plan which is currently being considered by our officials. Completion of the work will be a major step in Kew's efforts to increase its income and I hope therefore, that you are able to give the bids your support.

\* I am copying this letter to the Prime Minister.

Yours sincerely,

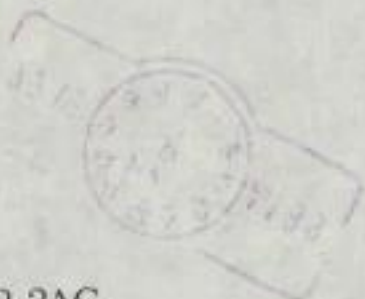
S. J. Lambert

pp JOHN GUMMER

Approved by the Minister  
and signed in his absence

UNCLASSIFIED

CCPS



Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon John Selwyn Gummer MP  
Minister of Agriculture, Fisheries and Food  
Whitehall Place  
London  
SW1A 2HH

21 September 1989

*D. Gummer*

*we've seen it. P.*

**KEW GARDENS: ADDITIONAL EXPENDITURE** *WIM REQUEST REQUIGO*

I am grateful to you for your letter of 18 September explaining the background to your PES bids for extra resources for Kew Gardens.

The importance which you attach to this work is understandable but I ought to point out to you that in this year's PES round I am wrestling with a very formidable list of priority claims. You will understand therefore that I cannot accommodate them all. I shall be looking to you and colleagues to assist with a rigorous reordering of priorities in your own programmes.

The Kew bids are relatively small and should be capable of accommodation within your existing programme at the expense of lesser priority work. I would expect you to look similarly at the remainder of your domestic agriculture bids which add up to an increase in your baseline of 11 per cent in 1990-91, building up to 17 per cent in 1992-93.

I look forward to a constructive discussion next Wednesday.

I am copying this letter to the Prime Minister.

*N. Lamont*

NORMAN LAMONT





Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Nicholas Ridley MP  
 Secretary of State for Trade and Industry  
 Department of Trade and Industry  
 1 - 19 Victoria Street  
 London  
 SW1H 0ET

20<sup>th</sup> September 1989

*Dear Nick*

DTI PROGRAMME EXPENDITURE AND RUNNING COSTS

Thank you for your letter of 14 September about DTI programme expenditure and running costs which we discussed at our meeting on 18 September. I am writing to record what we agreed. I will be writing separately about the ECGD and the Post Office.

On programme expenditure (excluding running costs) you very helpfully offered reductions below baseline as shown in the following table.

	£ million		
	1990-91	1991-92	1992-93
Baseline	955	802	823
Proposed reductions	-83	-67	-194
Revised total	872	735	629

I am most grateful to you for offering reductions on this scale which are a helpful contribution in a difficult Survey. I accept these proposals, and subject to the points below, I now regard this part of your programme as settled for the current public expenditure round.

Our officials will be discussing how the reduced provision is to be allocated to the various headings within your programme. I hope that this can be settled quickly on a mutually acceptable

PE &amp; Cash Limits.

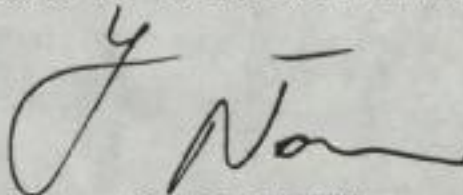
basis without the need for further correspondence between us. The figures for 1990-91 included in the Autumn Statement will, of course, be subject to the usual Estimates scrutiny later in the year.

You indicated that you are in the process of reviewing DTI spending programmes and I hope that once this has been completed you will be able to offer further reductions in the 1990 Survey. I look forward to hearing the results in due course. Any changes will of course need to be funded within the agreed provision, and detailed proposals cleared with the Treasury in the normal way. No doubt as part of your review you will be considering the implications of the recent evaluation of the Business Development Initiative, and the remaining industry support schemes such as those for providing support for the shipbuilding industry and redundant steelworkers. I believe that it is now appropriate for our officials to undertake a more formal review of the effectiveness and appropriateness of these schemes and to report in good time for the 1990 Survey. Similarly, on RSA we can take account of the outcome of the current review in the next Survey. On this basis I hope that RSA provision not higher than baseline will be agreed by our officials. I wrote to you on 30 August about cash limiting RSA. My hope is that we will be able to reach a constructive conclusion on this before the end of the Survey.

On EIEC I understand that your offer assumes slightly larger reductions than those proposed in John Major's letter of 21 July. As you may be aware we are currently considering whether net receipts from EIEC can correctly be treated as negative public expenditure as has been assumed in the above figures. My officials are in touch with yours about this classification issue which need not hold up our agreement on the overall settlement. You indicated that you are considering radical options for the EIEC following the disposals review which could generate substantial additional receipts. We agreed that this is not something which can be reflected in the current settlement, but the financial implications will clearly be an issue for the 1990 Survey, and I look forward to your proposals for developing the private sector property market without English Estates' intervention.

On running costs, I am grateful to you for agreeing to look again at your additional bids, particularly in respect of next year. If accepted in full your proposals would result in an increase in DTI running costs of 11.6% in 1990-91 (12.8% per man year). Settlements at this level are not compatible with the remit agreed by the Cabinet to hold down the growth in departmental running costs. You indicated that you are reviewing DTI's running costs requirements and expect to be able to offer reductions in the 1990 Survey. But notwithstanding this, I very much hope you will be able to offer some reductions now, given the difficult situation we face.

I am copying this letter to the Prime Minister.



NORMAN LAMONT

010

CF - P<sup>c</sup>  
RACG  
14/9

dti

the department for Enterprise

CONFIDENTIAL

Note

copy (?)

Passed a Paris  
council to Neil  
Manta in his  
Ridley's office

The Rt. Hon. Nicholas Ridley MP  
Secretary of State for Trade and Industry

Rt Hon Norman Lamont Esq MP  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1P 3AG

Navellous  
not

Department of Trade and Industry  
RACG  
14/9

1-19 Victoria Street  
London SW1H 0ET

Enquiries  
01-215 5000

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Price Minister<sup>2</sup>

Reflects the more rigorous  
approach Mr. Ridley told you  
he was adopting.

Direct line 01 215 5621  
Our ref JW3AAT  
Your ref  
Date 14 September 1989

Dear Norman

RACG 14/9

PES 1989

I have been reviewing the DTI PES bids submitted in May, against the background of the pressures on inflation and public expenditure that we are facing this year. You will appreciate that it is difficult for me to reach firm views on requirements after so little time at the Department. I shall be taking a closer look at the Department's objectives and activities over the coming months. But as a result of a rigorous examination of the original bids, I am able to offer major reductions on programme expenditure which take my net bids substantially below baseline in each PES year.

I hope that we will be able to reach agreement very quickly on the basis of these revised overall bid figures, which I shall table at our bilateral. I shall want some freedom to determine the exact allocation of my programme expenditure in the light of further consideration of the Department's activities; but I have a fairly clear idea of its broad distribution between programmes, which my officials will of course explain to yours.

The substantial net reductions which I shall be offering you cover increases in running costs. I have examined the original bids carefully but concluded that there is no scope for reducing them before I have had an opportunity to review the Department's activities. The increases result from higher rises in pay and accommodation costs (including VAT) together with provision to finance the necessary restructuring costs at the National Engineering Laboratory. Indeed, the original bids understate the rises which are now likely, although I



dti

the department for Enterprise

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intend to avoid the need to increase them further by proposing manpower reductions additional to those offered in David Young's original bidding letter. ✓

I am copying this letter to the Prime Minister.

*John*

*James*







*cdp*



*NLM*

*Rec 6  
2/9*

Treasury Chambers, Parliament Street SW1P 3AG

David Mellor Esq  
Minister for Health  
Department of Health  
Richmond House  
79 Whitehall  
London  
SW1A 2NS

7 September 1989

*Dear David*

1989 SURVEY: PSS SPECIFIC GRANTS *WILL REQUEST IF REQUIRED*

Thank you for your letter of 24 August.

I am content with the arrangements you propose for announcing the various PSS grants for 1990-91, and for the terms of the announcements to be cleared at official level in advance.

I am copying this letter to the Prime Minister, to members of E(LA) and to Sir Robin Butler.

NORMAN LAMONT



CCPOT

CONFIDENTIAL



NBPM  
RUC  
11/8

Treasury Chambers, Parliament Street, SW1P 3AG

David Mellor Esq  
Department of Health  
Richmond House  
79 Whitehall  
LONDON  
SW1A 2NS

10 August 1989



Dear Minister,

**1989 SURVEY: PSS SPECIFIC GRANTS**

+ MAP A42

Thank you for your letter of 26 July.

I welcome the fact that you are broadly content with the package of new and continuing specific grants for personal social services proposed in John Major's letter of 28 June. To summarise, we are now agreed that the AIDS support grant should continue throughout the Survey period at a flat £9.8 million; that the existing training support programmes for the elderly and childcare should continue for a further year in 1990-91 at a combined level of £14.9 million; and that there should be two new grants: £2.5 million in 1990-91 and £1.5 million in 1991-92 for the training requirements associated with the Children Bill, and £2 million in 1990-91 only for a post-qualifying training programme aimed at improving management deficiencies in the SSDs. I am grateful to you for not pressing your bid for the practice placement programme.

There remains your suggestion that the childcare programme should be extended for a further year now, into 1991-92. I would however much prefer to defer for the time being any further decisions on the training support programme for the later years, and to consider this instead in the autumn in the context of the wider review of the proposals you are developing for a comprehensive strategy to improve social services training. If at that time we agree in principle to extend the grant for a further year, the local authorities involved would

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have sufficient advance warning of the need to plan ahead beyond 1990-91. The childcare grant will moreover have been in operation for several months by the time of the review, and the elderly grant for some 18 months, with the end-year report for 1988-89 available to inform our discussions. We should therefore be in a rather better position at that stage to make a valid assessment of progress with these grants so far. It would in any case be undesirable, and possibly confusing, to give a commitment now to continue with one element of what will from 1990-91 be a composite grant programme.

I am copying this letter to the Prime Minister, members of E(LA) and to Sir Robin Butler.

Yours sincerely,

P. Wanless

PP NORMAN LAMONT

[Approved by the Chief Secretary  
and signed in his absence.]





2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:

Your ref:

The Rt Hon Norman Lamont MP  
The Chief Secretary  
Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*NORMAN  
Lamont  
4/8*

2 August 1989

*Dear Chief Secretary*

As you know, in his letter of 31 May, my predecessor made no bid for the London Docklands Development Corporation, feeling that the uncertainties at the time were too great. The Prime Minister's Group considered the Corporation's strategy on 19 July following Nicholas Ridley's paper of 11 July and decided to proceed as fast as possible with its transport programme. This letter is written in the light of the outcome of that meeting.

Since the meeting, my officials have run over the figures in detail with the Corporation. Some adjustments have been made but the scale of the overall requirement remains much as set out in Nicholas Ridley's paper of 11 July. The requirement includes an addition to the Corporation's EFL for 1989/90. It is as follows:

	1989/90 £ million	1990/91 £ million	1991/92 £ million	1992/93 £ million
Current EFL	188*	104	94	96
Main Bid	34	129	96	-
DLR Finance	-	99	38	(Potential repayment to HMT see para 7)
Total Bid	34	228	134	

\* includes £91 million from Summer supplementary and £11 million EYP.

As you see I have divided the bid between main Bid and the consequences of your predecessor's decision not to pursue a private sector funding vehicle for the DLR Extension. A detailed breakdown of the programme which the bid would buy is set out at Annex A. The bid must be subject to two main uncertainties - the actual level of tender prices and the eventual level of land sales.

## MAIN BID

The main bid which takes account of current forecast receipts and land sales, will achieve the following objectives:-

it will allow the Corporation's roads infrastructure to be built as quickly as possible in line with the Prime Minister's Group's decision. We have adjusted the estimates for road projects in the light of recent contract prices;

it will allow site servicing and environmental work to proceed which will boost the value of the Corporation's land holding and hence its receipts, and for some further land acquisition;

it provides for a package of social and community projects which underpin agreements with Newham and Tower Hamlets that are essential if the transport infrastructure is to be completed and which will ensure a balanced regeneration benefitting all sections of the community;

it will allow for a modest programme of social housing (£7m per annum in a PES year) for new building or refurbishment. This will support the agreements with the local authorities in assisting with the local housing problems and help to reduce the contrast between the worst housing conditions and the new development around them (itself a deterrent to developers and purchasers).

## DLR BECKTON EXTENSION

The DLR Extension is to be financed from land sales, more specifically the extra value which the railway itself will create. In rejecting the case for a private sector funding vehicle (Tigerwall) your predecessor offered an agreed bid to provide grant to even out cashflow from land sales and to meet additional tax liabilities on those sales. Your officials indicated that the best estimate of the grant required and the timing of repayment would be:

1990/91 £ million	1991/92 £ million	1992/93 £ million
61	48	-(100)

We have rechecked the figures in the light of market changes and re-worked the tax assumptions. Our current estimate of the grant requirement is £137m over the two years. I should underline that this is an estimate; LDDC are doing further work on the tax implications.

A major virtue of Tigerwall was its flexibility to respond to unforeseen circumstances. The company could have drawn more heavily on a bank facility if during a year land sales did not yield the expected income. Funding a railway through grant as proposed does not offer as much flexibility because of the constraints of annuality and the supply process. I hope you can reassure me that you will look sympathetically at the need for additional resources in year in the event that LDDC's prudent land sales forecasts prove optimistic or if tenders for building the railway come in significantly over our best estimates. The Treasury would of course recover any additional outlay in later years when land sales would be in surplus; I suggest my officials discuss the timing of this with yours.

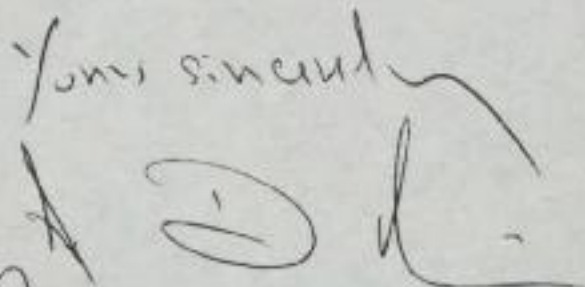
Otherwise LDDC propose to operate Tigerwall as previously planned - that is the Corporation will transfer the land back to the company and will ring-fence its operations and funding within LDDC's wider budget.

#### CONCLUSION

It was clear from the outcome of the Prime Minister's meeting on 19 July that the resources would be found for LDDC's programme and I look forward to your acceptance of my bid against that background. I strongly support the view expressed by Nicholas Ridley that it would not be reasonable for the remainder of the urban block to be cut back as a result. It would be very difficult to explain to the people of Sunderland and Sheffield for instance, why we should spend less on their Inner City problems to spend more in Docklands. Similar arguments would apply if you were to suggest reductions elsewhere in my Department's programmes. As you will no doubt recall Nicholas was himself inclined to defer the Beckton extension.

I would be grateful for an early answer on the position in 1989/90 - without prejudice of course to our wider PES discussions.

I am copying this letter to the Prime Minister and Cecil Parkinson.

*Yours sincerely*  


PP

CHRIS PATTEN  
(Approved by the Secretary of State  
and signed in his absence)



TABLE A

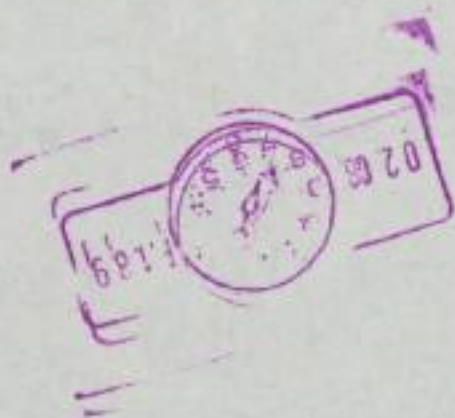
## EXPENDITURE £million

	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>
<u>Transport Projects</u>				
1. Limehouse Link - construction etc	48*	78	77	32
- replacement housing	33	26	1	0
(*including £3m insurance)				
- Total Limehouse Link	81	104	78	32
2. Canary Wharf Eastern Access	8	7	0	0
3. Poplar Link	9	6	3	3
4. East India Dock Link	0	22	34	4
5. Lower Lea Crossing	15	24	15	1
6. Royal Docks Major Roads	29	10	5	6
7. Other Road and Transport Projects	31	17	21	14
8. DLR Beckton Extension	21	123	68	21
TOTAL TRANSPORT	194	313	224	81
<u>Non-Transport Projects</u>				
1. Site Servicing	47	31	12	24
2. Environmental Improvements	12	12	10	4
3. Land Acquisition (Non-Transport)	14	1	0	1
4. Community Support	12	17	20	5
5. Education and Training	10	11	5	2
6. Social Housing/Housing Refurbishment	24	10	12	10
7. Industry Support	1	1	0	0
8. Promotion and Publicity	1	1	0	0
TOTAL NON-TRANSPORT	121	83	60	46
ADMINISTRATION	19	21	22	24
TOTAL EXPENDITURE	334	417	306	151
<u>INCOME (£million)</u>				
1. Grant	188	104	94	96
2. Land Disposal Receipts (Net)	80	85	78	159
TOTAL INCOME (NET)	268	189	172	255
PROJECTED SURPLUS/(DEFICIT)	(66)	(228)	(134)	104
CUMMULATIVE SURPLUS/(DEFICIT)	(34)*	(262)	(396)	(292)

\*£32m carried forward from 1988/89

Econ Re: Public Exp

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*My copy*  
*2 N6P*  
*BT*  
*3/8*  
*Ridley*

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My ref:

Your ref:

The Rt Hon Norman Lamont MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

2 August 1989

*In Norman*

PES 1989: DOE (CENTRAL)

*will request if required*

Your predecessor wrote to mine on 20 July about DOE programmes. I thought that it might be helpful if I were to set out my initial views, in advance of the detailed exchanges we shall obviously need to have after the summer. This letter is concerned only with Housing and DOE Other.

DOE public expenditure programmes have been substantially reduced in real terms over the last few years. Provision for housing gross capital spending in 1989-90, for example, is down 34% since 1979-80 outturn; and 18% since 1984-85. The number of new subsidised rented houses completed this year is likely to be around 30,000, compared with 55,000 only 5 years ago. Similarly, on DOE Other, the 1990-91 baseline is over 20% lower, in real terms using the GDP deflator, than outturn in 1984-85.

Moreover, since the 1988 Survey inflation has been considerably higher than was assumed last year, particularly in the construction industry. Even if the peak has now passed (as it has, for example, in housebuilding) we still start this Survey knowing that the baselines agreed last year will not go nearly as far as we had hoped.

It is against this kind of background that Nicholas Ridley made his bids. It is clear to me that those bids - as both of us would expect from him - are tautly constructed and an accurate reflection of the minimum needed if Government policies are to be properly carried out. I do not intend, at this stage, to respond in detail to John Major's letter of 20 July. But I must say that I stand by Nick's bids as being entirely realistic; what would be unrealistic would be to imagine that DOE programmes can be held at baseline (still less, as John Major's initial response suggested, reduced below baseline) without reversing a number of Government policies in my area of responsibility.

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Nick Ridley's bids left some points unresolved, which I need to record now. Most were trailed in Nick's letter of 31 May; all have been the subject of some discussion with your officials.

You will be aware that no bid could sensibly be submitted for the London Docklands Development Corporation (LDDC) in advance of the Prime Minister's recent meeting. I am writing to you separately with the detail of the LDDC bids, following the decisions taken there.


Paragraph 33 of the letter of 31 May said that DOE and OAL would be discussing whether to bid for the National Heritage Memorial Fund, who have been pressing us strongly for additional funding. Richard Luce and I have discussed their requirements. We shall each bid for £4.5m in 1991-92 and 1992-93. Such an increase, which would bring the total annual resources available to NHMF to £12m, would allow NHMF to meet the annual rate of spend that we assess to be needed. It is likely to be the minimum acceptable to the Board.

On the National Rivers Authority (NRA) a number of additional expenditure items have emerged since the original bid. The main ones in the PES period are the cost of buying out staff benefits from those transferring from water authorities, and the costs of completing works to provide the NRA with accommodation, laboratories etc in each region. Taking account of these new elements, our latest estimate is that the total NRA bid for the 3 Survey years should be £20.6m, £8.3m and £2.5m.

Finally, we need to provide grant-in-aid for the new Football Licensing Authority. Proposals for setting up the authority have been endorsed by members of H Committee. Exact costings are still a little uncertain, but are likely to be in the range £500,000 to £750,000 each year.

My officials will be supplying yours with detailed material explaining these bids. I hope also that officials can make progress, in advance of the bilateral, in clearing away some of the issues that need to be resolved between our two Departments, particularly on those bids that are either technical or inescapable.

I am copying this letter to the Prime Minister, Tony Newton, Peter Walker, Malcolm Rifkind, and Richard Luce.



CHRIS PATTEN



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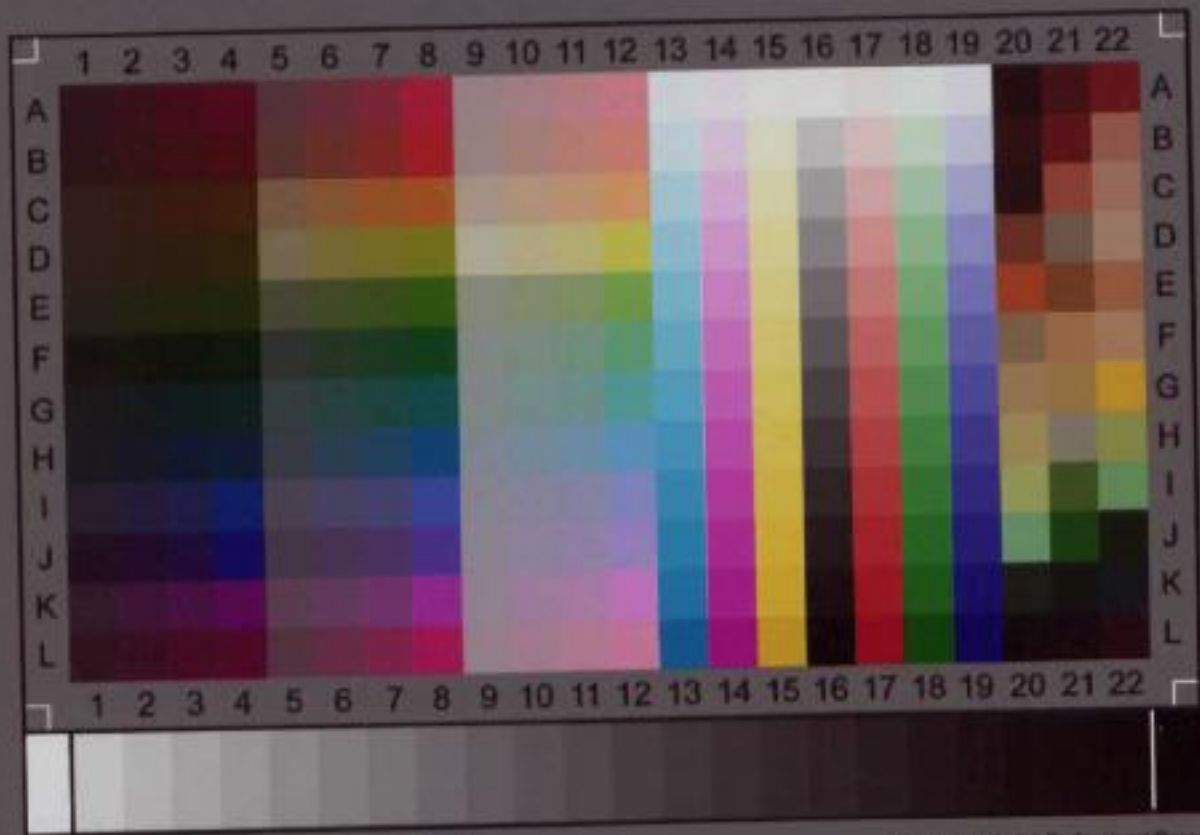


● PART 42 ends:-

D/Health to CST 26/7/89

PART 43 begins:-

SS/ENV to CST 2/8/89



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