Prime Minister (1)
The Chancellor would like any comments on this first thing on Monday. AT 4/11

AUTUMN STATEMENT: DRAFT OF THE CHANCELLOR'S ORAL STATEMENT

With permission, Mr Speaker, I should like to make a statement. As is now customary, I am laying before the House today an autumn statement which contains the Government's outline public expenditure plans for 1985-86, proposals for national insurance contributions next year, and the forecast of economic prospects for 1985 required by the 1975 Industry Act.

(1) The government remains committed to reducing taxation, and therefore to keeping firm control over government spending.

Following this year's public expenditure review, the public expenditure planning total for next year, 1985-86, has been set at £132 billion. As the House will recall, this is slightly below the provisional figure for 1985-86 published in the Public Expenditure White Paper in February.

This will render him liable to reproaches [illegible].

The government has thus succeeded for the third year running in holding the planning total to the level announced in previous plans.

After allowing for inflation public expenditure next year is planned to be broadly the same in real terms as was planned for this year, and below the likely outturn for this year, which has been inflated by the cost of maintaining electricity supplies during the coal strike. With the economy continuing to expand, public expenditure as a percentage of national output should fall next year to its lowest level for six years.

The revised plans contain a reserve for contingencies of £3 billion. This is £¾ billion less than the provisional reserve for 1985-86 allowed for in the

February White Paper, when departmental spending plans for 1985-86 were less well defined, but £¾ billion more than this year's reserve.

The allocation of this £¾ billion to specific expenditure programmes, coupled with an increase in forecast receipts from the privatisation programme, has enabled most, though not all, programmes to show an increase in spending over the White Paper figures.

But to contain these increases to dimensions compatible with the overall £132 billion planning total has required some hard decisions.

Thus there will be increased spending on the National Health Service, but individual health authorities will be expected to become more efficient and to absorb any pay and price increases within the money made available to them. In addition, my RHF the Secretary of State for Social Services has already announced important measures to cut costs by limitations on NHS prescribing, and there will have to be increases in changes.

Again, spending on social security will increase, but to contain the scale of the increase my RHF will be announcing a number of new measures including substantial savings in supplementary benefit provision for board and lodgings claimants. The 5 per cent abatement of invalidity pension which has applied since 1980 will, however, be restored from next November.

Yet again, there will be increased provision for education, partly offset by a reduction in student grants. – surely not all student grants. It would be better to say which – grants otherwise shall have all students complaining

By contrast, the improved position on the youth employment front has enabled my RHF the Secretary of State for Employment to apply some of the consequential savings from the cost of the Youth Training Scheme to an expansion of other employment and training measures, including the Enterprise Allowance Scheme, within a reduced overall total. My RHF will be announcing his new proposals to the House later this afternoon.

Other programmes to have reduced provision include domestic assistance to agriculture, and housing.

Fuller details of these and other changes are contained in the Autumn Statement itself. But I should add that the Treasury will be making its own contribution to the need for savings by instructing the Bank of England to cease issuing £1 notes after the end of this year, although the note will continue to be legal tender for at least a year. This will save £3 million of public expenditure in the first year alone.

It may be for the convenience of the House if I take this opportunity to announce two other changes in the currency. First, and subject to approval by the Privy Council, the ½ p, which has not been issued since 29 March this year, will cease to be legal tender after 31 December. And second, on Thursday of this week the Bank of England will be issuing a new design of the £20 note which should be more difficult to forge.

Mr Speaker, this year's review of expenditure plans has, as usual, also covered the Government's public spending plans for the two later years, 1986-87 and 1987-88. The details will be published in the usual way, in next year's Public Expenditure White Paper. They will show that total public spending is planned to remain broadly constant in real terms right up to 1987-88 which implies a continuing steady reduction as a proportion of GDP.

I now turn to national insurance contributions. The Government has conducted the usual Autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund.

The contribution rates for both employers and employees have had to rise in a number of recent years to bring the national insurance fund closer to being self-financing. Last year it was possible to reduce the Treasury supplement from general taxation without increasing contribution rates. This year it is desirable to reduce the Treasury Supplement further and I intend to make a cut of another 2 per cent from 11 to 9 per cent. Once again, I am able to do so without increasing contribution rates. Thus the full class 1 rate will remain unchanged at 9 per cent for employees and 10.45 per cent for employers.

As usual, the earnings limits will need to be increased broadly in line with inflation. From next April, the lower earnings limit will rise to £35.50 a week and the upper earnings limit to £265 a week.

Next year, of course, employers will enjoy the full benefit of the abolition of the National Insurance Surcharge, which came into force only last month. Taking this into account, the total burden on employers in 1985-86 is expected to be significantly less in real terms than in the current year, 1984-85, despite a rising labour force.

My RHF the Secretary of State for Social Services will this afternoon announce details of the changes in the Social Security (contributions, re-rating) Order, and will lay before Parliament the accompanying report by the Government Actuary.

Finally, I turn to the Industry Act forecast.

Since the Budget, the economy has had to endure a number of testing developments, both at home and abroad, of a sort which not so long ago would have driven it right off course. This time, they have not done so.

Monetary growth has been in line with the targets I set at the time of the Budget, and inflation has accordingly remained low: perhaps 4¾ per cent in the last quarter of this year.

Total national output, which reached its highest level ever last year, looks set to rise by a further 2½ per cent this year. Had it not been for the coal strike, growth this year would probably have been 3½ per cent.

Investment has been rising particularly strongly: indeed, over the economy as a whole, I expect it to reach a new all-time high this year.

Employment has been rising at a brisk pace since early 1983, but not yet strongly enough to check the rise in the numbers of those registering as unemployed.

Job prospects will, however, have been assisted by the recent falls in interest rates, which largely reverse the increase during the summer; with the prospect - provided we stick firmly to present policies - of further reductions ahead.

This year's PSBR is likely to turn out higher than the £7¼ billion I envisaged at the time of the Budget, chiefly as a result of the coal strike, which for the purpose of the Industry Act forecast is assumed to end at Christmas. On this assumption the strike would add some £1½ billion to borrowing this financial year; and the public expenditure planning total would be exceeded by about the same amount. On that basis, as I indicated to the House on 30 October, I estimate that the PSBR for 1984-85 will be some £8½ billion, subject to the usual margin of uncertainty at this time of the year. A PSBR of this size would still be comfortably the smallest proportion of GDP for well over a decade.

For next year, with continued firm money and fiscal policies, inflation is expected to edge down very slightly to 4½ per cent by the fourth quarter. Output and Employment will continue to rise, with total output expected to be up by a further 3½ per cent in 1985, of which about 1 per cent represents the assumed recovery from the coal strike.

Within this total, the forecast suggests that 1985 will be another good year for exports and industrial investment. Indeed, investment by non-North Sea businesses is expected to rise in real terms by 7 per cent next year, following a 10 per cent rise this year.

The House will wish to know what all this means so far as prospects for next year's Budget are concerned.

This year's Finance Act has of course already made changes which will take full effect next year and reduce taxation in 1985-86 by some £1¾ billion. Beyond that, the margin of uncertainty at this stage is very considerable, and the House will understand that the prospects for 1985-86 will need to be revised again, in the light of more up-to-date information, before I come to make my Budget judgement next year.

But on this basis, and on the conventional assumptions that direct taxes and excise duties are both indexed in line with prices and that the PSBR is held next year to the £7 bn, or 2 per cent of GDP, indicated in the medium term financial strategy published at the time of this year's Budget, I am glad to say that it does look as if there will be scope for some further net reductions in taxes in next year's Budget. The best figure I can put on it at the present time is about £1½ billion. I am sure the whole House would welcome the translation of this inevitably uncertain prospect into reality.

Mr Speaker, the Autumn Statement is now available from the Vote Office and the House will no doubt wish to take it into account when we debate the economy tomorrow.

It shows that for the third year running - that is, for every single year since the Government introduced cash planning for Public Expenditure - spending plans have been held at or below previously published totals.

It shows too that we are now in the fourth year of steady growth, with a further year of investment and export led growth in prospect, with no sign whatever of a resurgence of inflation. And the numbers in work are rising for only the third time since the 'sixties.

The statement I have published today sets the background against which further reductions in taxation should be possible, to help further stimulate the enterprise and dynamism of the British economy and produce more jobs for our people.