SECRET

Mr Wicks 1

Mr F[illegible]

10 DOWNING STREET

From the Press Secretary

Robert Culpin Esq
Head of Information
HM Treasury
Parliament Street
London SW1

11 November 1985

Dear Robert,

The Chief Whip, by arrangement with the Chief Secretary, asked me to prepare a layman's speaking note on the Autumn Statement for his purposes.

I attach my draft which I need to have cleared by 10am tomorrow (Tuesday).

The information on which it is based has been quarried from the draft brief. I am clearing each paragraph in the annex with the affected Departments.

I am copying to the Lord President, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal and the Chief Secretary, as well as the Chief Whip.

Yours sincerely

Bernard Ingham

BERNARD INGHAM

SECRET

DRAFT SPEAKING NOTE - AUTUMN STATEMENT

The Autumn Statement on public expenditure, made today (November 12, 1985), like the Queen's Speech last week, seeks to build on the progress made by the Government's policies of maintaining sound money and encouraging enterprise.

These policies have brought the longest period of sustained economic growth since the war combined with low inflation and a balance of payments surplus. And the encouragement of enterprise has helped to generate 677,000 new jobs over the last couple of years - more than in the rest of the European Community put together.

What is more, the outlook for the next year on growth (up another 3%), on inflation (down to below 4%) and on trade and job creation is set fair.

The review of public expenditure which led up to today's Autumn Statement has reinforced this prospect because it has held public spending broadly stable in real terms (ie allowing for inflation) over the next three years - the period covered by the review.

By keeping spending steady in real terms during a period of economic growth the Government is thus planning to reduce the proportion of national income taken by the State. That will leave more resources for industry, commerce and the individual. And this is, of course, consistent with the Government's further aim of reducing the burden of taxation and so encouraging enterprise and job creation.

Government revenue, including taxation, is the other side of the equation from public expenditure. This is dealt with in the Budget in the Spring.

No decisions have yet been taken about fiscal policy and the Autumn Statement deliberately offers no guide to any likely room for manoeuvre by the Chancellor of the Exchequer. Experience has shown that information given in the past, inevitably incomplete so far in advance of the Budget, has been misinterpreted.

With investment at an all time high, company profits at their highest level since the early 1970s and signs that unemployment is flattening out, the major threat to the longest recovery since 1945 remains excessive pay settlements. These only add to costs and therefore reduce our competitiveness at home as well as abroad.

The Autumn Statement shows that public expenditure is under firm control while at the same time allowing more to be spent on council house renovation, public health, social security, science, the arts, overseas aid and law and order.

The Government has achieved this by reducing the amount allowed next year for contingencies, within the planned total spending, from £6bn to a more realistic £4.5bn and making positive use of some of the money expected to be realised from the return of State industries to the private sector - a highly popular feature of the Government's efforts to increase competition in our economy.

The Autumn Statement thus strikes a careful balance between the Government's economic objectives and social priorities.

But the need for rigorous control over public spending remains if Britain's economic revival is to be carried forward. The planned totals for public spending for the three years ahead - broadly flat in real terms and representing a decreasing proportion of total national income - underlines the Government's determination to keep a tight rein on spending.

Useful points from the Government's spending programme, announced today, are set out in the attached annex.

November 12, 1985

SECRET

PUBLIC SPENDING - TALKING POINTS

1. To encourage employers to take on more workers, the earnings limit in the reduced rate bands for employers' and employees' National Insurance Contributions have been raised in line with inflation to maintain the relief; Class I rates of NI contributions remain unchanged for the third successive year.

2. The Autumn Statement does not assume higher energy prices. Price decisions are for the industries themselves taking into account, among other things, the financial framework within which they must operate. Domestic electricity prices are down 8% in real terms since 1979; and gas prices are down 4%.

3. The cost of the coal strike over the two years 1984-85 and 1985-86, taken together, is now estimated at £4bn - the equivalent of 4p off the standard rate of income tax.

4. Increased spending on social programmes can be summarised as follows:

> **Housing**: the figures assume increased spending on council house renovation of £660m over the three years - an increase of 18% on the previous provision of £3.6bn over the same period.
>
> **Health**: increased provision for the NHS will maintain the Government's record of increased spending every year since 1979. [Capital spending on the NHS has risen by 25% and waiting lists have fallen over the same period.]

Social Security: No major policy changes have been announced in the Autumn Statement. Decisions on the social security review - the most fundamental look at the welfare state for 40 years - have still to be taken. The increased provision mainly reflects the consequences of a 7% uprating of benefits this month in line with the increase in the Index of Retail Prices over the 12 months to May 1985. The index is expected to be around 5.5% by the end of this year.

Science: The Science budget is up £15m a year to fund high priority research programmes. University funding is up £9m a year mainly to provide additional equipment to strengthen the research base.

Overseas Aid: The aid programme will be maintained to 1988-89 at the same level in real terms as in 1985-86. Another £20m has been allocated for 1986-87 and another £30m for 1987-88. The UK aid programme is the sixth largest among Western donors and the third largest in the European Community.

Arts: The Government remains committed to keep up the level of support. There is increased provision of over £19m and £17m in the next two years respectively for central and local authority elements of the programme. The increased provision is over and above the Government's decision in July to facilitate acceptance of works of art in lieu of tax, expected to be worth on average £10m a year.

Roads: Provision for capital spending on national and local roads has been increased by more than £150m over the next 3 years (£37m, £52m and £65m respectively).

NB: These increases are offset by increased sales of Government assets and the normal process of rolling forward the reserve within the public expenditure total contingencies.

5. MISCELLANEOUS

Defence: The current financial year will bring the seventh successive year of real growth in defence expenditure. The Government announced in 1984 that it would not aim to meet the NATO target of a real increase in expenditure after this financial year. Taking this into account, the totals announced in the Autumn Statement reflect no change in the planned provision for defence. This means continued improvements in capability because the MoD will retain the benefits of improved efficiency.

Urban Programme: Provision is maintained over the next three years. This programme (only a fraction of spending on inner cities) has tripled since 1979 from £93m to £338m in 1985-86. £1900m has been spent on the urban programme since 1979.

Environment: There is increased provision for local authority capital expenditure on local environmental services, Nature Conservancy Council; Countryside Commission; Royal Palaces and historic buildings; and ancient monuments.

November 1985

Autumn Statement

BEMBC J

HOUSING

GOVERNMENT SPENDING
AUTUMN STATEMENT**

£ million

Cmnd 9428*	1985-86	1986-87	1987-88	1988-89
capital	**	3,250	3,210	3,110
current	**	1,100	1,100	1,100
receipts	**	-1,600	-1,480	-1,340
net	2,700	2,750(+220)	2,830(+200)	2,880

* adjusted to reflect transfer of central government housing administration to DOE

** see Defensive (iv)

HOUSING STOCK CONDITION INQUIRY

We recognise this is a problem and we shall be considering the findings of the inquiry with the local authority associations. We have already devoted considerable more resources to renovation both in the public and private sectors and the £220m increase in housing provision announced by my right honourable Friend for 1986-87 will enable even greater priority to be given to this work.

GOVERNMENT RECORD

In the Private Sector

i) The number of renovation grants paid in private sector has averaged 150,000 a year under this Government; compared with less than 100,000 under Labour.

ii) Under Labour expenditure on improvement and insulation grants fell from £431 million in 1974/75 (84/85 prices) to £175 million in 1978/79, a fall of 59 per cent. Under this Government it has risen from £204 million in 1979/80 to £752 million in 1984/85, an increase of 268 per cent.

In the Public Sector

i) The number of local authority renovations completed has run at 75,000 a year under this Government compared with 47,000 under Labour.

ii) Under this Government spending by local authorities on the renovation of their housing has increased by 15 per cent in real terms and is now running at £1.1 billion a year. This is in addition to the £1.2 billion spent annually on day to day repairs and maintenance.

iii) The additional provision announced by my right honourable Friend should be sufficient to renovate more than 750,000 dwellings.

Housing and Home Ownership

i) The dwelling stock rose by 1.2 million between 1979/85; owner occupation increased by 2 million; building societies approved more than 1 million mortgages in 1984 for the first time.

ii) Gross expenditure on housing (including house building) fell 50 per cent between 1974/75 and 1978/79, but a further 24 per cent between 1979/80 and 1984/85.

A

cc R. Middleton

SECRET
until 12 November 1985
then UNCLASSIFIED

D1

(ix) Historic comparisons of PSBR/Money GDP ratios

Per cent

	Rounded PSBR	PSBR	Unrounded PSBR excluding privatisation proceeds	PSFD*	
1971-72	1¾	1.6	1.6	1.1	
1972-73	3½	3.6	3.6	3.0	
1973-74	5¾	5.8	5.8	4.6	
1974-75	9	8.9	8.9	6.7	
1975-76	9¼	9.3	9.3	7.4	
1976-97	6½	6.4	6.4	5.8	
1977-78	3½	3.6	3.9	4.4	
1978-79	5¼	5.4	5.4	4.9	
1974-75 to 1978-79	6¾	6.7	6.8	5.8	
1979-80	4¾	4.8	5.3	3.9	
1980-81	5½	5.4	5.5	5.1	
1981-82	3¼	3.3	3.3	2.2	
1982-83	3	3.1	3.3	3.0	
1983-84	3¼	3.2	3.6	3.9	
1984-85	3	3.1	3.8	3.8	2.09
1979-80 to 1984-85	3¾	3.8	4.1	3.7	
1985-86 (projected)	2¼	2.2	2.9	3.1	2.50

* Public sector financial deficit

Positive

(i) Government's strategy to maintain monetary conditions which will bring about further reduction in inflation, supported by lower public sector borrowing, remains on course.

(ii) Steady pursuit of MTFS policies has enabled economy to enter fifth year of sustained growth at average rate, so far, of 3 per cent a year, accompanied by fall in inflation from average of 15 per cent (and rising) under Labour to less than 6 per cent now (and falling).

(iii) Autumn Statement confirms prospect of continued strong growth and falling inflation, with public expenditure as proportion of GDP continuing its downward trend since peak year of 1982-83.

(iv) PSBR in 1985-86 expected to be lowest as percentage of money GDP (2¼) since 1971-72.

A. (B)

	Planning total		Planning total in Real Terms (1984-85 prices)		GGE as % of GDP	
	As defined	Excluding Privatisation	As defined	Excluding Privatisation	As defined	Excluding Privatisation
1971-72					41	41
1972-73					40½	40½
1973-74	29.3	29.3	111.9	111.9	42½	42½
1974-75	39.4	39.4	126.1	126.1	48	48
1975-76	48.9	48.9	124.5	124.5	48½	48½
1976-77	54.5	54.5	122.6	122.6	46	46
1977-78	56.8	56.8	112.2	112.2	42	42
1978-79	65.7	65.7	117.4	117.4	43	43
1979-80	77.0	78.0	117.6	119.1	43½	44
1980-81	92.7	93.1	119.3	119.8	46	46
1981-82	104.6	104.6	122.3	122.2	46	46
1982-83	113.4	113.9	123.8	124.4	46½	47
1983-84	120.3	121.5	125.8	126.9	45½	46
1984-85	129.7	131.8	129.7	131.8	45½	46
1985-86	134.2	136.7	127.8	130.2 →3.3	44½	45
1986-87	139.1	143.9	126.8	131.1	43	44
1987-88	143.9	148.7	126.7	130.9	41½	43
1988-89	148.7	153.3	127.1	131.2	41	42

SECRET : UNTIL DELIVERY

reducing public spending as a % of GDP

AUTUMN STATEMENT: ORAL STATEMENT

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

2. I am laying before the House today an Autumn Statement which brings together the Government's outline public expenditure plans, proposals for National Insurance contributions next year, and the forecast of economic prospects for 1986 required by the 1975 Industry Act.

3. This year's Autumn Statement contains considerably more information than its predecessors. It breaks new ground by providing a forecast of the public expenditure outturn for 1985-86 for each department, and the plans not just for the year immediately ahead but for each of the next three years. Both these innovations meet specific requests from the Treasury and Civil Service Committee and I hope they will be welcomed by honourable Members.

4. The outturn for this financial year is expected to be the same as set out in the Budget, that is, £134 billion. After allowing for inflation, this is lower than last year, which bore the brunt of the public expenditure cost of the coal strike.

5. The Government will continue to maintain firm control over public spending. Following this year's review, the planning totals for 1986-87 and 1987-88 will be held to the levels set out in the Budget - £139 billion and £144 billion respectively. For 1988-89 the total has been set at £149 billion. Over these three years public spending in real terms is expected to be broadly flat at very slightly below this year's level. As a percentage of national output it will continue to decline as it has since 1982-83. By 1988-89 it should be back to its lowest percentage since 1972-73.

6. In order to meet contingencies, the plans contain large reserves, rising from £4½ billion in 1986-87 to £8 billion in 1988-89. The reduction in the reserve for 1986-87 as compared with the provisional reserve for that year which I announced at the time of the Budget chiefly reflects the fact that the passage of time allows part of the reserve in any given year to be allocated to individual expenditure programmes as their costs become known more accurately. But the £4½ billion reserve for the year immediately ahead remains a substantial figure.

7. Although I expect the planning total for 1985-86 to be the same as I did at the time of the Budget, the PSBR - subject to the usual margin of uncertainty at this time of year - is forecast to be about £1 billion higher: some £8 billion rather than £7 billion. This is due to lower sterling oil revenues. But even at £8 billion the PSBR would be the smallest it has been as a percentage of GDP since 1971-72.

8. The PSBR would, of course, have been running at a higher level than this were it not for the proceeds from privatisation, to which I will turn in a moment. But even without the privatisation proceeds, this year's forecast PSBR would still be the smallest as a percentage of GDP since 1971-72.

9. The Government's privatisation programme is now getting into top gear and will continue for many years to come. I cannot stress too strongly the importance of this programme - now being emulated throughout the world - as a fundamental objective of Government policy. The transfer of state-owned businesses to the free enterprise sector of the economy brings enormous long-term benefits to the nation as a whole, in terms of greater concern for the customer and increased efficiency. It also provides the opportunity for a massive boost to wider share ownership, both among the public in general and the employees of these great enterprises in particular.

10. The increased pace of privatisation means that the proceeds from this programme will rise substantially from £2½ billion this year to £4¾ billion in each of the next three years. In

particular, the planned flotation of the British Gas Corporation is included for the first time. At the same time, however, there have been increases in a number of public expenditure programmes, so that the overall planning totals have remained unchanged.

11. However, this needs to be seen in perspective. Even if the proceeds from privatisation were to be ignored altogether, the public expenditure planning total would still be broadly flat in real terms, at less than one per cent above this year's total; and public spending would still be on a steadily declining path as a percentage of GDP, reaching by 1988-89 its lowest level since 1972-73.

12. The annual review of public spending provides an opportunity to reconsider priorities and adjust the balance between programmes. While some programmes this year have been held back, it has been possible to make significant additions to others.

13. There will be increased spending on the National Health Service over previous plans of £250 million in 1986-87 and £300 million in 1987-88. On top of this, Health Authorities are able to spend the savings from their cost improvement programmes which are expected to amount to £150 million this year and still more in future years. This should enable Health Authorities to meet demographic pressures and deliver improvements in services as well.

14. Total public sector provision for housing is being increased by £220 million net of receipts in 1986-87 and £200 million in 1987-88, and the housing plans now provide for some £3¼ billion of capital spending next year. Within this total the Government believes there should be a substantial shift in priorities in favour of renovation of the existing public sector housing stock.

15. An extra £54 million in 1986-87 and £71 million in 1987-88 is being made available for capital expenditure on national and local roads.

16. Just over £1 billion is being added to the Social Security programme for 1986-87, largely as a result of the 7 per cent increase in benefits taking effect this month. Expenditure in the subsequent years of the Survey period is subject to decisions on the Government's Social Security Review, on which a White Paper will be published shortly.

17. Additional provision has been made under the law and order programme to allow local authorities to direct extra spending towards the police.

18. For defence, the provision is unchanged. After the substantial real increases in spending since 1978-79, from which the defence programme will continue to benefit, the emphasis must now switch to improving our defence capability through greater efficiency and value for money, especially in procurement.

19. On employment, there were large additions in the Budget to fund an expansion of the Youth Training Scheme and the Community Programme. In this Survey, a number of new initiatives have been agreed but savings are to be made by a reduction in payments from the Redundancy Fund. My Rt Hon Friend the Paymaster General will be making a statement giving further details later today.

20. There have been significant improvements in efficiency and value for money in many programmes. It is a great mistake to fall into the trap of measuring public expenditure programmes solely on terms of the money put into them: it is improved output that matters.

21. Further details of these and other changes are contained in the Autumn Statement itself, and of course full details, together with information on running costs and manpower, will be given in the Public Expenditure White Paper to be published early in the New Year.

22. I now turn to National Insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund.

23. The lower earnings limit will be increased next April to £38 a week, in line with the single person's pension, and the upper earnings limit will be similarly increased to £285 a week, broadly in line with earnings.

24. I announced in the Budget reduced rates of contribution for the lower paid and their employers - 5 per cent for those earning up to £55 a week, 7 per cent for those earning up to £90 a week and 9 per cent for employers of workers earning up to £130 a week. These took effect at the beginning of last month and are already starting to provide welcome assistance to the low paid and their employers, and a stimulus to the employment of the young and unskilled. The limits for these reduced rate bands will also be increased from April, in line with the lower and upper earnings limits, to £60, £95 and £140 a week respectively.

25. There will be no change in the main Class 1 contribution rates, which will remain at 9 per cent for employees and 10.45 per cent for employers. This is the third year running in which National Insurance contribution rates have been held constant, despite a growing number of pensioners and the substantial uprating of benefits taking effect later this month.

26. My Rt hon Friend the Secretary of State for Social Services will this afternoon announce details of these proposals, and will lay before Parliament the necessary Order and the accompanying report by the Government Actuary.

27. Finally, I turn to the Industry Act forecast.

28. The economy is progressing very much as I envisaged at the time of the Budget. Inflation is falling again, after the

predicted temporary rise in the Spring, although I now expect inflation in the fourth quarter of this year to be slightly above the Budget forecast: 5½ per cent rather than 5 per cent.

29. The overall growth of the economy this year still looks like turning out at 3½ per cent - the highest rate of growth since 1973.

30. The pattern of growth, too, has been much as envisaged. Exports and business investment, as expected, were the fastest growing elements in demand in 1985. The rise in total investment is now put at 4 per cent in 1985; within this figure business investment is expected to be up by 7 to 8 per cent, to yet another all-time record.

31. As a result of this steady progress, there has been a substantial growth in the number of people in work since 1983. This has now been reflected in a levelling out in unemployment - albeit still at a sadly high level, not least because of the rapid growth in the total labour force. The prospect here is for some further improvement, assisted by the measures I announced in the Budget to help on the jobs front, which will have their main effect in 1986. But that improvement could easily be put at risk by excessive pay settlements.

32. The prospect for 1986 is one of continued growth and still lower inflation. The composition of growth is likely to change somewhat, with consumer spending taking up the running as exports - which had an exceptional rise of 7 per cent this year - grow more slowly. The current account balance of payments surplus is forecast at £4 billion, compared with £3 billion in 1985. Fixed investment is expected to grow, once again, slightly faster than the economy as a whole.

33. Overall, the economy in 1986 is expected to grow at a further 3 per cent - the fifth successive year of growth at an average of 3 per cent a year, and into the sixth; the best performance since before the first oil shock. At the same time, inflation is expected to fall further, to 3¾ per cent in the fourth quarter of 1986.

34. Indeed, if the forecast is correct - and I am the first to admit its inevitable fallibility - 1986 promises to be the first year since the 'sixties when inflation and growth will be within one point of each other. What is beyond doubt is that we are now achieving the steady growth with low inflation which successive Governments have sought in vain for a generation.

35. All in all, Mr Speaker, the progress and prospects I have described amount to the clearest possible vindication of the policies we have been following these past six years, and will continue to follow.

36. 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. The framework of public expenditure control which it sets out should allow scope for considered and justified reductions in the burden of taxation. And these in turn will further reinforce the economy's flexibility and dynamism. It is on that prospect that the future prosperity of all our people depends.

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30. The pattern of growth, too, has been much as envisaged. Exports and business investment, as expected, were the fastest growing elements in demand in 1985. The rise in total investment is now put at 4 per cent in 1985; within this figure business investment is expected to be up by 7 to 8 per cent.

31. As a result of this steady progress, there has been a substantial growth in the number of people in work since 1983. This has now been reflected on a levelling out in unemployment - albeit still at a sadly high level, not least because of the rapid growth in the total labour force. The prospect here is for some further improvement, assisted by the measures I announced in the Budget to help on the jobs front, which will have their main effect in 1986. But that improvement could easily be put at risk by excessive pay settlements.

32. The prospect for 1986 is one of continued growth and still lower inflation. The composition of growth is likely to change somewhat, with consumer spending taking up the running as exports - which had an exceptional rise of 7 per cent this year - grow more slowly. The current account balance of payments surplus is forecast at £4 billion, compared with £3 billion in 1985. Fixed investment is expected to grow, once again, slightly faster than the economy as a whole.

33. Overall, the economy in 1986 is expected to grow at a further 3 per cent - the fifth successive year of growth at an average of 3 per cent a year, and into the sixth - the best performance since before the first oil shock. At the same time,

inflation is expected to fall further, to 3¾ per cent by the fourth quarter of 1986 - the lowest figure since the 'sixties.

34. Indeed, if the forecast is correct - and I am the first to admit its inevitable fallibility - 1986 promises to be the first year since the 'sixties when inflation and growth will be within one point of each other. What is clear is that we are now achieving the steady growth with low inflation which successive Governments have sought in vain for a generation.

35. All in all, Mr Speaker, the progress and prospects I have described amount to the clearest possible vindication of the policies we have been following these past six years, and will continue to follow.

36. 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. The framework of public expenditure control which it sets out should allow scope for considered and justified reductions in the burden of taxation. And these in turn will further reinforce the economy's flexibility and dynamism. It is on that prospect that the future prosperity of all our people depends.

10 DOWNING STREET

Prime Minister 2

This is nearly final.

See in particular the important point in para 11.

DRW

11/11

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

pm

David

Still subject to checking & last minute changes (as is briefing attached)

Rwo 11/11

Rachel.

11/11

AUTUMN STATEMENT: ORAL STATEMENT

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

2. I am laying before the House today an Autumn Statement which brings together the Government's outline public expenditure plans, proposals for National Insurance contributions next year, and the forecast of economic prospects for 1986 required by the 1975 Industry Act.

3. This year's Autumn Statement contains considerably more information than its predecessors. It breaks new ground by providing not only a forecast of outturn for 1985-86 for each department, but also the plans for the next 3 years. Both these innovations meet specific requests from the Treasury and Civil Service Committee and I hope they will be welcomed by honourable Members.

4. The Government's objective of reducing the burden of taxation requires that public expenditure be kept under firm control. Following this year's review, the public expenditure totals for 1986-87 and 1987-88 will be held to the levels set out in the Budget - that is to say, £139 billion and £144 billion respectively. For 1988-89 the total has been set at £149 billion.

5. The outturn for this year, 1985-86, is expected to be the same as set out in the Budget, that is, £134 billion. After allowing for inflation, this represents a decline in real terms on 1984-85, which bore the brunt of the public expenditure cost of the coal strike. Over the next 3 years public expenditure will remain little changed in real terms from the level expected this year. With a growing economy, public expenditure as a percentage of national output will continue the declining path it has been on since 1982-83, and by 1988-89 it should be back to its lowest level since 1972-73.

6. Although I see no reason at the present time to expect the public expenditure planning total outturn for this year to exceed the figure I set at the time of the Budget, I do now expect the PSBR for this year, 1985-86, to be about £1 billion higher than I envisaged in the Budget: some £8 billion rather than £7 billion. The reason for this is the shortfall in sterling oil revenues as a result of a higher sterling/dollar exchange rate than was assumed at the time of the Budget. But even £8 billion - and the margin of uncertainty at this time of year is still considerable - would imply the smallest PSBR as a percentage of GDP for 14 years.

7. A major development this year has been that, as a consequence of the growing momentum of the Government's privatisation programme, there will be a substantial increase in receipts from this source, from £2½ billion this year to £4¾ billion in each of the next three years. These revised figures include for the first time proceeds arising from the privatisation of the British Gas Corporation. In addition to the long-term economic benefits from transferring major state-owned businesses to the private sector, privatisation provides the opportunity for a massive boost to wider share ownership, both by employees and the general public.

8. In the light of this, the House will wish to know that, even if the proceeds from privatisations were to be ignored altogether, the public expenditure planning total would still be broadly level in real terms over the next three years and general Government expenditure would still be on a steadily declining path as a percentage of GDP

9. In order to meet contingencies, the revised plans contain large reserves, rising from £4½ billion in 1986-87 to £8 billion in 1988-89. The reduction in the reserve for 1986-87 as compared with the provisional reserve for that year I announced at the time of the Budget chiefly reflects the fact that the passage of time allows part of the reserve in any given year to be allocated to individual expenditure programmes as their costs become known more accurately. But it remains a substantial figure. In addition, the increase in forecast receipts from the privatisation programme has been matched by further increases in a number of programmes above previously published figures, within unchanged overall planning totals.

10. The regular annual review of public spending provides an opportunity to reconsider priorities and adjust the balance between programmes. While some programmes have had to be held back, for others it has been possible to make significant additions. But across all programmes there has been strong pressure for economies and greater efficiency. We must not fall into the trap of measuring programmes solely by the money put in: it is the output that is delivered that matters.

11. There will be increased spending on the National Health Service of £250 million in 1986-87 and £300 million in 1987-88. On top of this, Health Authorities are able to spend the savings from their cost improvement programmes which are expected to amount to £150 million this year and still more in future years. This should enable Health Authorities to meet demographic pressures <u>and</u> deliver improvements in services as well.

12. Total provision for public sector housing is being increased by £220 million net of receipts in 1986-87 and £200 million in 1987-88, and the housing plans now provide for some £3¼ billion a year of capital spending. Within this total the Government believes there should be a substantial shift in priorities in favour of renovation of the existing public sector housing stock.

13. An extra £54 million in 1986-87 and £[ ] million in 1987-88 is being made available for capital expenditure on national and local roads.

14. Just over £1 billion is being added to the Social Security programme for 1986-87, largely as a result of the 7 per cent increase in benefits taking effect this month. Expenditure in the subsequent years of the Survey period is subject to decisions on the Government's Social Security Review, on which a White Paper will be published shortly.

15. Additional provision has been made under the law and order programme to allow local authorities to direct extra spending towards the police.

16. For defence, the provision is unchanged. After the substantial real increses in resources since 1978-79, the emphasis must now switch to improving our defence capability through greater efficiency and value for money, especially in procurement.

17. On employment, there were large additions in the last Budget to fund an expansion of the Youth Training Service and the Community Programme. In this Survey, a number of new initiatives have been agreed but savings are to be made by a reduction in payments from the Redundancy Fund. The Secretary of State for Employment and my RHF the Paymaster General will be making statements giving details tomorrow.

18. Further details of these and other changes are contained in the Autumn Statement itself, and of course full details, together with information on running costs and manpower, will be given in the Public Expenditure White Paper to be published early in the New Year.

19. I now turn to National Insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund.

20. The lower earnings limit will, as usual, be increased next April to £38 a week, in line with the single person's pension, and the upper earnings limit will be similarly increased to £285 a week, broadly in line with earnings.

21. I announced in the Budget reduced rates of contribution for the lower paid and their employers - 5 per cent for those earning up to £55 a week, 7 per cent for those earning up to £90 a week and 9 per cent for employers of workers earning up to £130 a week. These took effect at the beginning of last month and are already starting to provide welcome assistance to the low paid and their employers, and a stimulus to the employment of the young and

unskilled. The limits for these reduced rate bands will also be increased from April, in line with the lower and upper earnings limits, to £60, £95 and £140 a week respectively.

22. There will be no change in Class 1 contribution rates. These will remain at 9 per cent for employees and 10.45 per cent for employers. This is the third year running in which National Insurance contribution rates have been held constant, despite a growing number of pensioners and the substantial uprating of benefits taking effect later this month.

23. My Rt hon Friend the Secretary of State for Social Services will this afternoon announce details of these proposals, and will lay before Parliament the necessary Order and the accompanying report by the Government Actuary.

24. Finally, I turn to the Industry Act forecast.

25. The economy is progressing very much as I envisaged at the time of the Budget. Inflation is falling again, after the predicted temporary rise in the Spring, although I now expect inflation in the fourth quarter of this year to be slightly above the Budget forecst: 5½ per cent rather than 5 per cent.

26. The surplus on the current account of the balance of payments still looks like turning out at £3 billion, as forecast in the Budget, and the overall growth of the economy this year still looks like turning out at 3½ per cent, as I forecast. [This will, incidentally, be the highest rate of growth we have achieved in any year since 1973.]

27. The pattern of growth has, however, been slightly different than I envisaged. At the time of the Budget, both the current spending of central and local Government, and total fixed investment, were forecast to rise at 2 per cent. In the event, it looks as if there will have been no increase at all in the current expenditure of central and local Government this year, but that total fixed investment will rise by 4 per cent. And within this latter figure, business investment is expected to be up by between 7 and 8 per cent.

28. As a result of this steady advance, the substantial growth in employment that has been taking place since 1983 has now been followed by a levelling out in unemployment - albeit at a painfully high level. The prospect here is for some improvement, not least because the measures I announced in the Budget to help on the jobs front, will have their effect in 1986. But that improvement could easily be put at risk by excessive pay settlements.

29. The overall prospect for 1986 is one of continued growth and still lower inflation. The composition of growth is likely to change somewhat, with consumer spending taking up the running as exports - which had an exceptional rise of 7 per cent this year - growing more slowly. Despite this the current account balance of payments surplus is expected to be even larger, at £4 billion, and fixed investment is forecast to grow, once again, slightly faster than the economy as a whole.

30. Overall, the economy in 1986 is expected to grow at a further 3 per cent - implying the fifth successive year of growth at an average of 3 per cent a year, and into the sixth - the best performance for over 20 years [check]. At the same time, inflation is expected to fall further, to 3¾ per cent by the fourth quarter of 1986 - again, the lowest figure since the 'sixties [check].

31. Indeed, if the forecast is correct - and I am the first to admit its inevitable fallibility - 1986 promises to be the first year since the 'sixties when inflation and growth will be within one point of each other.

32. All in all, Mr Speaker, the progress and prospects I have described amount to the clearest possible vindication of the policies we have been following these past six years, and will continue to follow.

33. 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. The framework of public expenditure control which it sets out should allow scope for considered and justified reductions in the burden of taxation. And these in turn

will further reinforce the economy's flexibility and dynamism. It is on that dynamism that the future prosperity of all our people depends.

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CC BG

CONFIDENTIAL

W 11/11

NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S OFFICE, TREASURY CHAMBERS, ON 8 NOVEMBER 1985

Present: Chief Secretary
Mr Monck
Mr Turnbull
Mr Shaw
Mr Broadbent
Mr MacAuslan

Secretary of State for Employment
Mr Dawe
Mr L Lewis

AUTUMN STATEMENT: ENTERPRISE AND EMPLOYMENT

The Chief Secretary, opening the meeting, said that it was necessary to follow up the remits in Mr Norgrove's letter of 7 November to Mr Lewis about the pilot schemes for the long term unemployed, the loan guarantee scheme, and the timing and content of announcements in the context of the Autumn Statement. He stressed that it would be impossible for the Treasury to consider making extra resources available at this stage.

Loan Guarantee Scheme

2. It was agreed that the Loan Guarantee Scheme should be extended under existing rules to the end of 1985-86, with the extra costs being absorbed by DE within the existing baseline, and with no commitment on the part of the Treasury as to what might be agreed for thereafter. There would be discussions between the Treasury and DE about the possibility of a successor scheme. Any announcement might be made in the Budget. It would be acceptable if the timing of the Budget meant that there was likely to be a short gap between the expiry of the existing scheme and the start of any successor.

Pilots to help the long term unemployed find jobs

3. It was agreed that, subject to satisfactory discussions between officials on the practical details, the Secretary of State should announce on Wednesday 13 November that pilot schemes would be set up from 1 January 1986 to test the effectiveness of a "guarantee" and an "enterprise" scheme for the long term unemployed. The pilots would last 6 months; they would take place in 5-7 areas (possibly including one each in Scotland and Wales) to be chosen with the agreement of the Treasury. Of these areas, about 3 might be devoted to the 2 year+ unemployed, and about 3 to the 1 year+. The areas would be defined by means of local authority boundaries.

4. The costs would be borne by DE within existing provision. The Secretary of State said that he could find £2.7m in 1986-87 from money offered but not required for ATP. DE would inform the Northern Ireland Office of the scheme before announcement, but would not offer to finance any scheme that might be proposed for NI.

5. It was agreed in discussion of whether the allowance should be taxable that a decision (in which the Financial Secretary should be involved) would be needed by Tuesday. The use of retrospective legislation would not be attractive.

6. The "enterprise" scheme was a necessary companion of the guarantee scheme at the pilot stage. All those applying for the "enterprise" scheme should be interviewed at Jobcentres.

7. Officials would have to discuss a number of issues, starting with a meeting early in the week beginning 11 November. These issues should include the evaluation procedures. The Chief Secretary expressed great concern that the procedures should be adequate. He would be asking his officials for a report back, following which he might want further discussion with the Secretary of State. It was agreed that the evaluation would be continuous; officials should set out the dates by which different sorts of results might become available. Control groups in comparable areas should be sought. Officials should also involve DHSS in the discussions annd should explore any interaction with the proposed family credit scheme, as well as ensuring that there were mechanisms for delivering the benefit savings that might result and for identifying them as savings on the DHSS programme. Officials would also need to discuss other practical points such as the areas to be chosen, the costs of the two pilots, the eligibility rules, and the other destinations (apart from the "enterprise" scheme) for those called for interview. (The Secretary of State had mentioned that some of the new CP places agreed in the Budget could be used for this purpose). Territorial departments would be involved.

8. There would be no commitment on the part of the Treasury to agree to any extension of the pilots, nor to any extra finance for DE if extensions were agreed.

Announcements

9. It was agreed that the Secretary of State should make a statement in the Lords after questions on Wednesday 13 November (with an equivalent statement in the Commons by the Paymaster General), covering in full the abolition of rebates from the redundancy fund, the Budget increases for CP & YTS, the Survey increases in EAS, tourism, and LEAs, and the pilots and extension of LGS just agreed. There would be a press release at the same time. The press would be briefed more fully the following weekend. It was agreed that there would be no suggestion in public of any commitment to extend the pilots, nor of the possibility that the pilots might be extended before the evaluation was completed. While the public line would be therefore that the pilots would run for 6 months and then be assessed before any decision was taken whether to extend them, the Secretary of State reserved his right to propose extension in the discussions leading up to the Budget, and the Chief Secretary stressed that the Treasury was not committed to agreeing to any extension.

10. The Chancellor would say in his statement that the Secretary of State would be making a statement. The Autumn Statement text would mention reductions in expenditure from the redundancy fund and increases for EAS, small firms and tourism, but would give no

further details. Treasury Ministers would if pressed before Wednesday afternoon not go beyond mentioning the forthcoming statements on Wednesday and referring questions to DE.

11. The text of the Autumn Statement would be agreed between DE and the Treasury in the course of the afternoon. It was agreed that the tables should be annotated to give the changes between Cmnd 9428 and the revised baseline as well as the changes (-70 and -210 for 1986-87 and 1987-88 respectively) between the new baseline and Cmnd 9428 adjusted. Officials of the two Departments would show their opposite numbers texts of the relevant parts of the statements, press notices, and briefing.

Circulation: those present
Chancellor
Financial Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Anson
Mr Burgner
Mr Monger
Mr Scholar
Mr Watson
Ms Noble
Ms Sinclair
Mr White
Ms Henderson
Mr Rayner
Mr Davies
Mr Lord

Pmb

Prime Minister

DEPARTMENT OF THE

ENVIRONMENT

NEWS RELEASE

541 8 November 1985

SUCCESS OF GOVERNMENT ECONOMIC POLICY ESSENTIAL SAYS BAKER

Speaking at Leatherhead today, Kenneth Baker, Secretary of State for the Environment, said:

"I believe it was absolutely essential to stick to the Public Expenditure total that the Cabinet agreed in July. That we have been able to do. That is the success story this week, not the misleading press accounts of Ministerial wrangles.

"The Government rightly remains fully committed to its economic strategy, and to restraining the total level of Government expenditure. Otherwise we would slip back into the bad old cycle of soaring inflation, stop-go economic policy and higher unemployment levels.

"I am of course very glad that the Government has decided, within the totals agreed, to increase the amount for the renovation of council property. Next week I shall publish a report which this Government commissioned. It shows that a significant backlog of repair work needing to be done on parts of our municipal housing stock has developed over the last generation.

"This is a task which faces us as a nation for many years to come. This week's decision shows the collective determination of the Government to tackle this task.

2 MARSHAM STREET · LONDON SW1P 3EB · TELEPHONE 01 · 212 3434

"Ignore the press speculation about Whitehall in-fighting, and blood on Ministerial carpets. The increase in the provision for housing renovation was a collective decision, a team decision. It demonstrates the commitment of the Government to improve conditions for those who live in our worst housing, particularly in our towns and cities."

Press Enquiries: 01 212 3492, 4682/3/4
(out of hours: 01 212 7132)

Public Enquiries: 01 212 3434
(ask for Public Enquiries Unit)

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