



Treasury Chambers, Parliament Street, SW1P 3AG  
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27 October 1986

Mark Addison Esq  
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LONDON  
SW1

Dear mark,

**INFRASTRUCTURE SPENDING**

... Further to the discussion at Cabinet last Thursday, I attach a note on infrastructure spending.

I am copying this letter and attachments to the Private Secretaries of all Cabinet Ministers.

Yours,  
Cathy

CATHY RYDING  
Assistant Private Secretary

*1 have taken a copy  
20/10*

*Mr. Wilson  
Mr. N. Jones } to see*

*1. Mr. Beerperff*

*Can we get some of  
A and perhaps B into the 1725  
speech.*

*N.C.W  
28.10.*



## CAPITAL SPENDING AND INFRASTRUCTURE: SPECIFIC SECTOR BULL POINTS

**A** Roads: Since 1979, capital spending on motorway and trunk roads increased by 30 per cent in real terms. During 1985-86 70 miles of motorway and 145 miles of trunk road renewed. Backlog of motorway and trunk road repairs should be eliminated during next 5 years. Planned expenditure in 1986-87 on motorway and trunk roads in England increased to £900 million - increase of 10 per cent over 1985-86. Between 1979 and end July 1986 over 600 miles of new motorway and trunk roads were completed. Most of M25 London Orbital now opened at cost of over £1 billion. 20 bypasses now being built and 150 bypass schemes in preparation. In 1986-87 work planned to start on more than 40 new schemes worth £430 million, including 150 miles of new road. Since 1979, road prices have on average fallen relative to prices in economy as whole by about 11 per cent.

Water and Sewerage (England and Wales): Between 1978-79 and 1986-87 estimated to be public investment of £6.7 billion. Estimated to be £940 million invested in 1986-87. Plans in Cmnd 9702 show further increase in investment to £1,024 million by 1988-89.

**B** Rail: Since 1979 investment of £2½ billion in railways and further £2 billion is planned over 5 years from 1986-87. Will include £300 million expenditure on East Coast main line electrification - greatest single railway investment in last 25 years. BR has investment plan for Channel tunnel involving expenditure of about £380 million.

Gas: Estimated that between 1978-79 and 1985-86 £5 billion spent on new capital expenditure on fixed assets. By end 1985-86 total of more than £2 billion invested in Rough field gas store and Morecambe Bay gas field. (BGC expected to be privatised in second half of November 1986.)

Electricity: Capital expenditure on fixed assets (including Scottish electricity) rises from £810 million in 1978-79 to estimated £1,671 million in 1985-86 - broadly in line with inflation. Torness AGR power station planned to be completed in 1986-87 at estimated cost of £1.2 billion. 2 gigawatt Cross Channel Link with France expected to be completed in 1986-87 at estimated cost of £390 million.

NHS: Between 1978-79 and 1985-86 capital spending on NHS increased by 28 per cent in real terms. Over £1 billion yearly now being spent on NHS capital repair and maintenance. More than 100 new hospital schemes planned to be completed over next 3 years. In England, more than 380 large hospital schemes underway in £3 billion hospital building programme.



Educational Buildings: In 1986-87 12 universities have major building projects in progress, or starting soon - at total estimated cost to public funds of £61 million (1986-87 prices). Maintenance expenditure on educational buildings risen substantially in real terms over recent years.

Housing (England): Capital spending on housing renovation increased from £481 million in 1978-79 to estimated £1,450 million in 1986-87 - 54 per cent in real terms. New private sector house building starts up 8½ per cent in 1986Q1 on year earlier - second highest level for 12 years and higher than at any time under last Labour Government.

Prisons (England & Wales): Programme of 14 new prisons, plus two at feasibility study stage, costing £387 million, with extra funds made available during Survey period. Between 1978-79 and 1985-86 capital spending on new buildings increased by 105 per cent in real terms.

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27 October 1986



SECRET

fa.  
sent to me in a 12  
personal bank.  
DLS  
29/10.

**DRAFT ORAL AUTUMN STATEMENT (consistent with Plan B)**

1. With permission Mr Speaker I should like to make a statement.
2. As the House will not be sitting next week, it is not possible this year to follow in every detail the usual timetable for publication of the Autumn Statement. But I thought it would be for the convenience of the House if I were to make a full oral statement today about the Government's public expenditure decisions, its proposals for next year's national insurance contributions, and the forecast of economic prospects for 1987 required by the Industry Act 1985. The printed Autumn Statement, in its usual form, will be laid before the House when we come back next week.

**The outturn for 1986-87**

3. I deal first, as usual, with the current year, 1986-87. In the public expenditure White Paper published last January, the planning total for this year was put at £139 billion. My best estimate of the prospective outturn is an excess of just over 1 per cent, at £140.5 billion. The main factors behind this have been the current spending of local authorities, whose budgets indicated an increase in spending of [8 per cent] over last year, an excess of £3 billion over the provision in the White Paper; local authorities' capital spending, which is now estimated to be running at  $\frac{1}{2}$  billion over plans; and an extra £1 billion on social security.



4. Revenue has also been running somewhat ahead of the forecast I made in the budget. In March it was already clear that buoyant demand in the non-North Sea economy, and an increasingly profitable corporate sector, were generating additional tax revenues which would more than offset the loss of revenue from the North Sea. That buoyancy is set to continue, both this financial year and next. Taking account of further increases in government receipts this year, which will in large measure offset the increased expenditure, I now estimate the outturn for the PSBR in the current financial year at [ $\pounds 7\frac{1}{2}$ ] billion compared with the estimate of  $\pounds 7$  billion made at the time of the Budget. Public sector borrowing is, then, running broadly on the track I set for it at budget time.

#### Public expenditure plans 1987-88 to 1989-90

5. I turn now to our public expenditure plans for the next three years, 1987-88 to 1989-90.

6. During the 1960s and 1970s, public expenditure grew by around  $3\frac{1}{2}$  per cent a year, faster than the economy as a whole. As a result, public spending came to represent a greater and greater proportion of GDP. With that, as the House and the country know to their cost, the burden of taxation and public borrowing inexorably increased.

7. Our objective has been to reverse these trends. The borrowing requirement is back at the level last seen in the early 1970s. In each of the last five budgets taxes have been reduced. From its peak of  $46\frac{1}{2}$  per cent in 1982-83, Government expenditure has fallen as a proportion of GDP to an estimated  $43\frac{1}{2}$  per cent in 1986-87.



8. Our approach to expenditure planning has been to relate spending to what the nation can afford to finance, whether by taxation or borrowing. To achieve our objective of bringing taxes down and keeping borrowing low in accordance with our medium-term financial strategy, it is essential that public spending continues to fall as a proportion of GDP. The plans I am about to announce will take the ratio down from [43½] per cent this year to [41½] per cent in 1989-90, back to the level of the early 1970s.

9. Within this constraint we have sought to achieve three things:

- to establish priorities, allowing us to increase spending on certain vital services such as education, health and the renovation of public sector housing;
- to make realistic provision for those areas such as local authority current expenditure which are not directly under government control, and the so-called demand-led programmes such as social security;
- over the whole range of spending to secure greater value for money so that better services are delivered from whatever resources are made available.

10. Within the constraints of this approach, and with the prospect of steady and continuing growth of national output over the next three years, we have felt able to make some increase in the previously announced planning totals of £144 billion in 1987-88 and £149 billion in 1988-89. The revised planning totals for the next three years will be £x billion, £y billion and £z billion. Compared with the forecast outturn for 1986-87, these totals represent an average growth of [just over 1 per cent] per year in real terms, well within the prospective growth of the economy.



11. These totals incorporate estimates for the proceeds of privatisation. Last year I raised the estimate of these proceeds to £4 $\frac{3}{4}$  billion in each year, a figure which I expect to be achieved this year. Although this programme is now moving ahead strongly, I have not thought it right to make any further substantial adjustment to this estimate, which has been rounded to £5 billion in each year.

12. For defence, our plans remain unchanged though in 1989-90 the cost of the Falklands Garrison, now down to £130 million a year, will be met from within the Defence budget. The benefit of the heavy re-equipment programme of recent years and the increasing savings from greater efficiency will ensure that our improved defence capability is sustained.

13. In addition to enjoying the benefits of substantially higher receipts from council house sales, housing investment will be increased by £240 million in 1987-88. This will sustain the rising trend of spending on renovation and improvements.

14. Spending on the health service will be increased by £x million a year. Combined with the resources increasingly being generated by greater efficiency, this will not only meet the growing demands on the health service but will allow it to improve services.

15. The largest single increase is for local authorities whose current spending, including the provision for teachers' pay, is now put next year at £4 billion above previous provision. In subsequent years this spending is projected to grow more or less in line with inflation.



16. In addition to the very substantially increased expenditure on schools contained within local authority current spending, there will be additional provision for universities of £60 million in 1987-88 and £70 million in 1988-89. This fulfils the undertaking by the former Secretary of State for Education and Science to increase support for universities as part of a major programme to improve efficiency and raise standards. Grants to the Research Councils will be increased by £20 million a year.

17. £1 $\frac{3}{4}$  billion has been added to next year's provision for social services. Less than a third of this increase is attributable to changed economic assumptions about prices and unemployment. Most of the rest represents greater take-up of existing benefits.

18. Finally the plans will contain substantial and rising reserves of £a, b and c million. As I have made clear, additions have been made, from 1987-88 onwards, to local authority current and capital expenditure and to social security spending - the 3 programmes which, in the current year have put most pressure on the Reserve. This has been necessary to ensure realistic provision in each of the next 3 years. Although, in the current year, net increases in other programmes has been modest, I have nevertheless judged it prudent to include substantial Reserves for the next 3 years.

19. A summary table setting out the figures for each programme will be available in the Vote Office when I sit down and further details of these and other changes will be contained in the printed version of the Autumn Statement which will be published as soon as the House returns. In addition, full details together with



information on running costs and manpower, will be given in the public expenditure White Paper early in the New Year.

20. 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, and taking account of the benefit uprating which my Rt Hon Friend the Secretary of State for Social Services announced on 22 October.

21. The lower earnings limit will be increased next April to £39 a week. The upper earnings limit will be similarly raised, to £295 a week, an increase of just  $3\frac{1}{2}$  per cent on the present limit of £285 a week. [That is the maximum permissible increase within the existing legislation.]

22. The limits for the reduced rates of contribution which I announced in the 1985 Budget, as a measure to boost lower paid employment, will also be increased in April. The limit for the 5 per cent and 7 per cent rates will be raised to £65 and £105 respectively. The contribution rate for employers will be raised from £140 a week to £150. In each case, the increase is rather more than the projected increase in earnings.

23. The Treasury supplement will be reduced from 11 per cent of contribution to 9 per cent. However, for the fourth year running, there will be no change in Class I contribution rates. Despite the growing number of pensioners and the substantial increase in social security spending which I have already announced, the main rates



will remain at 9 per cent for employees and 10.45 per cent for employers.

24. My Rt Hon Friend the Secretary of State for Social Services will announce details of these proposals [this afternoon] and will [shortly] lay before Parliament the necessary order and the accompanying report by the Government Actuary.

25. Finally I turn to the Industry Act Forecast.

26. Developments in the economy this year have in many ways been similar to those in the other large industrial economies. The world economy has been through a difficult phase of adjustment to a number of major shifts in relative prices - including the dollar, commodity prices in general and the oil price in particular. Exports by the major economies to OPEC and other developing countries have been weak, and this has led to some stagnation in industrial output, of which the United Kingdom has experienced its share. But total output growth in the major industrial countries in 1986 has generally been running somewhat ahead of growth in industrial output; here at home output as a whole has been about 2-2½ per cent above last year's level, compared with the Budget forecast of 3 per cent. 1986 has been the fifth successive year of growth, and has seen the start of the sixth, with growth averaging about [3 per cent] a year.

27. Domestic demand has risen rapidly this year, as expected at the time of the Budget. Inflation has fallen even more sharply than forecast, to levels not seen in the this country for almost



20 years. I now expect it to rise slightly above the current level, to  $3\frac{1}{4}$  per cent in the fourth quarter of this year and to  $3\frac{3}{4}$  per cent in the fourth quarter of 1987. Excluding the effects of mortgage rates it is now a little above 3 per cent and on this basis I expect it to be  $3\frac{1}{4}$  per cent in the fourth quarter of this year; and  $3\frac{1}{4}$  per cent in the fourth quarter of next year.

28. Employment has continued to rise; since the 1983 general election a million new jobs have been created, and total employment has risen for thirteen successive quarters. Unemployment may at last have begun to fall - although it must be some time before we will know if the very welcome falls in the last two months are the beginning of a new and sustained trend.

29. Looking ahead to 1987 the prospects are generally encouraging. There are now signs of buoyant domestic demand in most of the major industrial countries, and, with the fall in demand from OPEC and other developing country markets coming to an end we may expect a more vigorous and assured growth in world output and trade. Over recent years, in sharp contrast to the previous pattern, we have maintained our volume share of world trade in manufactures, and it is now clear that our exports have resumed the vigorous growth they were showing before the pause in activity began.

30. British industry is now in an exceptionally favourable position to take advantage of the strengthening of the world economy. The adjustment of the sterling exchange rate to a lower level of oil prices has now taken place, and our exports are now more competitive than they have been for many years. Full



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adjustment of our trade to all these shifts in relative prices will, of course, take time, and, taking account of the much slower than forecast growth in our export markets, I now expect the current account of the balance of payments to be in approximate balance this year, with a deficit of some £1½ billion in 1987.

31. Although output in the North Sea is likely to fall next year the growth of non-oil exports is, as I have indicated, expected to run more strongly in 1987. Domestic demand is likely to grow at about the same rate in 1987 as this year. The favourable prospects for industry should mean a good investment performance. All in all I expect 1987 to be a year of balanced growth at a sustainable pace, with output as a whole rising by almost 3 per cent.

32. The full text of the Autumn forecast is to be published today by the Treasury and will be included as usual in the printed Autumn Statement next week. The forecast is now available in the Vote Office.

#### PERORATION

33. Mr Speaker, the strategy we have followed since 1979 has brought inflation down to the lowest level for two decades, combined with sustained growth and rising living standards. That combination has eluded governments of both parties for many years. We have brought it about by sticking to policies of free markets and sound money. We shall continue to stick to those policies.