

COVERING CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

12 December 1986

Dear David,

WRBN

*Filed in separate
 box.*

1987 PUBLIC EXPENDITURE WHITE PAPER

As foreshadowed in my letter of 9 December,
 I now enclose a copy of Volume II of the
 1987 Public Expenditure White Paper.

I should point out that the health
 warning about the figures in our letter
 of 9 December also applies to this draft,
 although at this stage we are only
 envisaging minor further amendments.

As with Volume I, the Chief Secretary
 would be grateful for any comments by
 midday on Friday, 19 December at the latest.

I am copying this letter to the Private
 Secretaries to members of the Cabinet,
 to Michael Stark (Mr Luce's office) and
 to Trevor Woolley (Cabinet Office).

Yours sincerely,

Jill Rutter

JILL RUTTER
 Private Secretary

CONFIDENTIAL



Prime Minister 4
 You may like to
 phone at this.

Treasury Chambers, Parliament Street, SW1P 3AG

DLW
 11/12

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

10 December 1986

Dear David,

1987 PUBLIC EXPENDITURE WHITE PAPER

The Autumn Statement gave a summary of the results of the 1986 Public Expenditure Survey. The next stage in the annual cycle will be the publication of the 1987 Public Expenditure White Paper.

This year the White Paper was published on 16 January. I envisage a broadly similar timetable for 1987, with publication during the week beginning 12 January; I will, however, write round separately later about the detailed publication arrangements.

... This year the Chief Secretary is anxious that colleagues should be given rather more time than they have had in previous years to consider the White Paper in draft and make their final comments on it. Accordingly, I now enclose the draft of the summary Volume I, parts of which have already been discussed with departments at official level. The more detailed Volume II - including the departmental chapters already agreed at official level - will be circulated separately before the end of the week.

One implication of "circulating" the draft earlier than in previous years is that there is still uncertainty about the precise figures in some areas, such as the estimated outturn for 1986-87. (The deadline for departmental comments on figures is today.) The tables and charts will therefore be finalised once the exercise to establish the new database has been completed. But the Chief Secretary felt that his colleagues would prefer to have longer to consider a near-final draft of the document.

To meet the publication timetable it will be necessary to finalise the White Paper before the Christmas break.

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The Chief Secretary would therefore be grateful for any final comments by midday on Friday 19 December at the latest.

I am copying this letter to the Private Secretaries to members of Cabinet and Sir Robert Armstrong.

Yours sincerely
M C Felstead

M C FELSTEAD
Private Secretary

MAIN POINTS FROM THIS WHITE PAPER

Public spending in 1987-88 and 1988-89 is planned to be £148.6 billion and £154.2 billion respectively. A new planning total of £161.5 has been set for 1989-90.

These plans mean that public spending is expected to fall as a proportion of the nation's income over the next four years. By 1989-90, the proportion is expected to be back to the levels of the early seventies. In real terms, public spending is expected to increase by an average of 1 per cent a year, significantly less than the expected growth of the nation's income.

Compared with the last White Paper, extra funds have again been allocated to priority services; these include education, health and law and order. Further provision, around £1 billion in 1987-88, has also been made for capital spending, including substantial increases for housing, schools and roads. Estimated costs of some demand led programmes, such as social security, have also risen.

The privatisation programme is moving forward strongly.

The Government is giving high priority to improving value for money in all programmes. This White Paper further expands the information about what is being achieved and planned by departments.

The overall spending plans

Introduction

1. The Autumn Statement, published in November 1986, gave the broad results of the annual public spending review. This White Paper fills in the detail of the plans for the next three years; and provides the basis for the Supply Estimates, cash limits and other spending controls for 1987-88. Revised projections of government receipts, spending and borrowing over the medium term will be given in the next Financial Statement and Budget Report (FSBR), to be published on Budget Day.

2. This Volume of the White Paper gives a summary of the new plans. Volume II goes into more detail. It provides further analyses of historical trends in public spending, and detailed accounts of the spending plans, outputs and performance of all parts of the public sector. The contents of Volume II are summarised on page [] of this Volume.

Aims and objectives

3. The plans set out in this White Paper should ensure that public spending continues to fall as a percentage of GDP, as it has done over the last four years.

4. The Government's plans for public spending are an integral part of its Medium Term Financial Strategy (MTFS). When he announced the latest public expenditure plans in the House of Commons on 6 November 1986, the Chancellor of the Exchequer reaffirmed the Government's commitment to the fiscal stance set out in the MTFS published in the FSBR at the time of the 1986 Budget. He said that there would be no relaxation of that stance and that the public sector borrowing requirement (PSBR) in 1987-88 would be held to the MTFS figure of 1¼ per cent of national income (gross domestic product or GDP).

5. Within the cash resources available, the Government continues to attach importance to getting better value for money from public spending every year. The annual review of public spending looks not just at the money to be spent, but also at the outputs and the efficiency with which they are achieved.

1986-87 outturn

6. The estimated outturn for the planning total in 1986-87 is [£140.4] billion. This is [the same as] that published in the Autumn Statement (AS), and about [1]

per cent above the plans set out in the last White Paper (Cmnd 9702). The additions made to programmes during the year have been [£5.8] billion compared with a Reserve of [£4.5] billion at the beginning of the year. The main increases have been in local authority current and capital spending ([£2.7] billion and [£0.5] billion respectively) and in demand-led programmes, notably social security, which is projected to be [£1.6] billion higher.

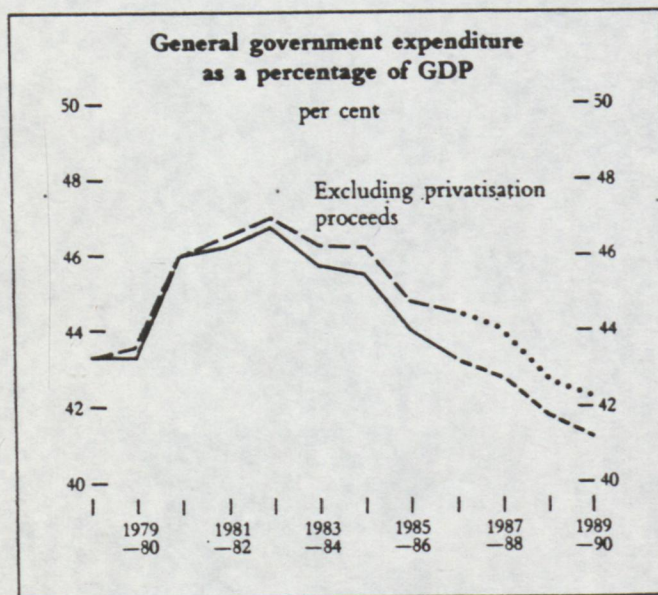
Public spending totals

7. The public expenditure planning totals for 1987-88 and 1988-89 are £148.6 billion and £154.2 billion respectively. This compares with £143.9 billion and £148.7 billion in the last White Paper. A planning total has now been set for 1989-90, at £161.5 billion. These totals include substantial Reserves not allocated to programmes. These Reserves are larger, both absolutely and as a percentage of the planning total, than in any White Paper except 1986 (see paragraph 56).

Public spending and national income

8. General government expenditure has been falling steadily as a percentage of GDP, with a decline of 2½ percentage points between 1982-83 and 1986-87. With money GDP growing as in the MTFS, the new plans will allow for a further decline of 2 percentage points (see Chart 1.1 below), bringing the ratio below that inherited by the Government in 1979 and back to the levels of the early seventies.

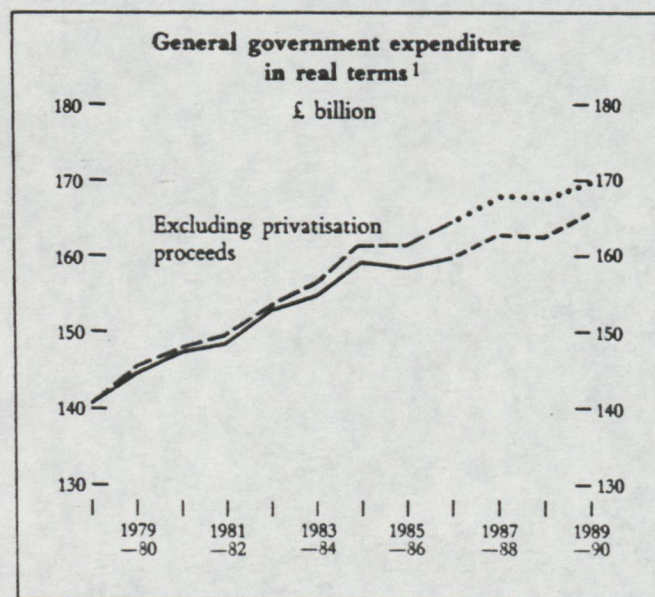
Chart 1.1 Public expenditure as a percentage of GDP



Public spending in real terms

9. The new plans should ensure a continued deceleration in the growth of public spending. In real terms, the average growth in general government expenditure, (excluding privatisation proceeds in order to show the underlying trend), is expected to be just over 1 per cent between 1986-87 and 1989-90 (see Chart 1.2) (1¼ per cent for the planning total). This compares with growth averaging almost 3 per cent in the decade up to 1978-79, around 2¼ per cent in the period 1978-79 to 1982-83, and around 1¾ per cent in the period 1982-83 to 1986-87.

Chart 1.2 General government expenditure in real terms



¹ Cash figures adjusted to 1985-86 price levels by excluding the effect of general inflation as measured by the GDP deflator.

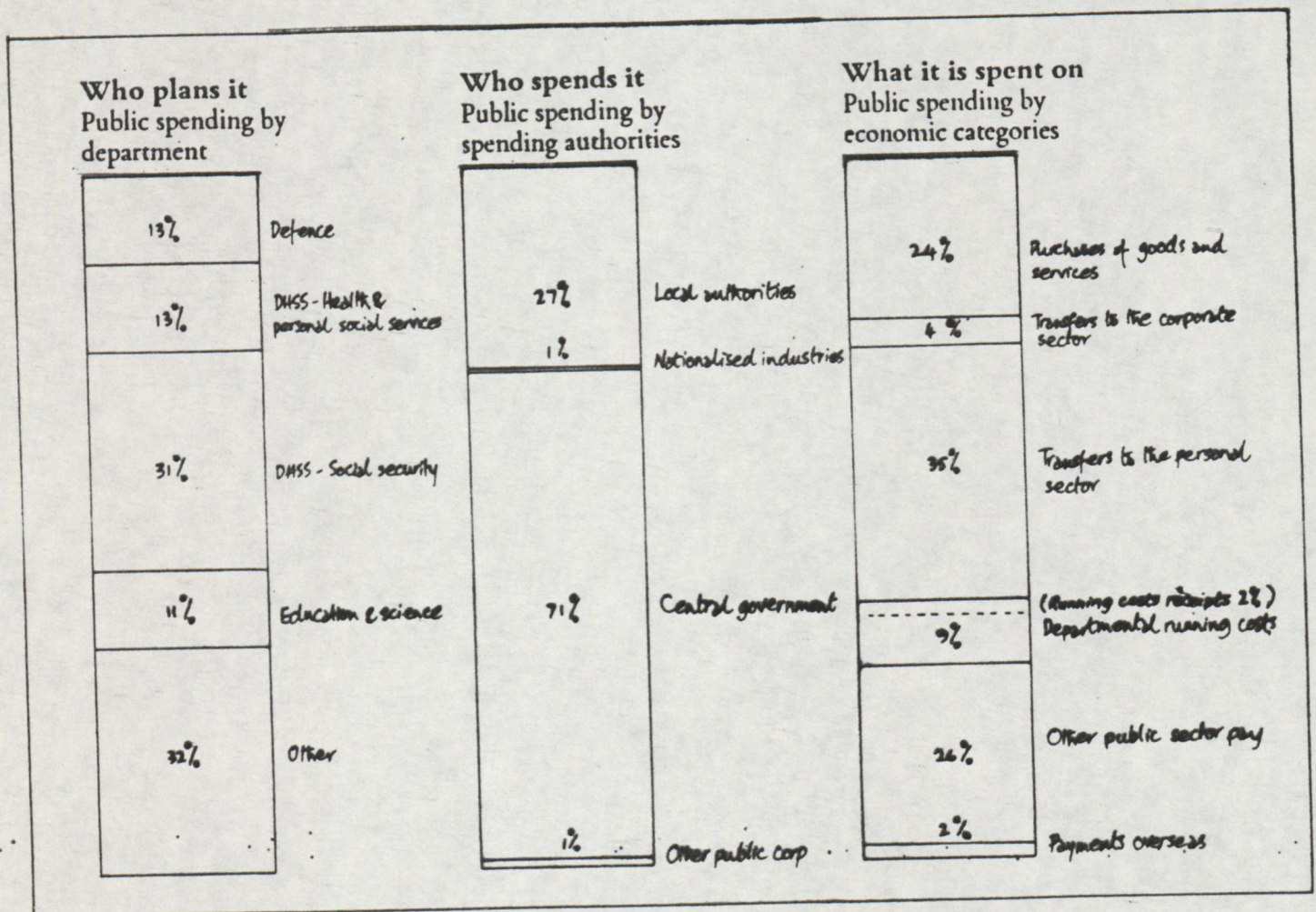
Public spending concepts

10. There are different ways of analysing total public spending, and different spending aggregates are relevant for different purposes. General government expenditure (the combined spending of central and local government including debt interest but excluding public corporations) is a comprehensive measure of public spending. It is useful for analysing overall trends in public spending, and in the formulation of macro-economic policy. Thus it is the measure used in determining the MTFs at Budget time. But for the purposes of the detailed public spending review, attention is focussed on the public expenditure planning total, which forms the basis for the control totals used each year⁽¹⁾.

11. Information on the planning total can be shown in a number of different ways. A analysis of public spending by departments, covering all expenditure policies for which each Secretary of State is responsible, provides an answer to the question "Who plans it?". A breakdown of how the money is spent by central government, local authorities and public corporations answers the question "Who spends it?". Similarly a breakdown by economic category answers the question "What is it spent on?"

These different approaches are illustrated in Chart 1.3 below.

Chart 1.3 Public spending analysed



(1) The main difference between general government expenditure and the planning total is general government gross debt interest, some £18 billion in 1986-87. Full details of the relationship between GGE and the planning total are given in Part 2 of this White Paper.

Who plans it - public spending by department

Priorities

12. The Government's review of the development of its spending priorities is carried out in the context of the annual Public Expenditure Survey.

13. Chart 1.4 below summarises the main adjustments to departmental spending plans for 1987-88. Substantial extra provision has been made available for education, health and law and order; and estimated costs of pensions and social security benefits have increased significantly. Extra provision of some £1 billion for capital spending is included in the revised plans for schools, housing and roads.

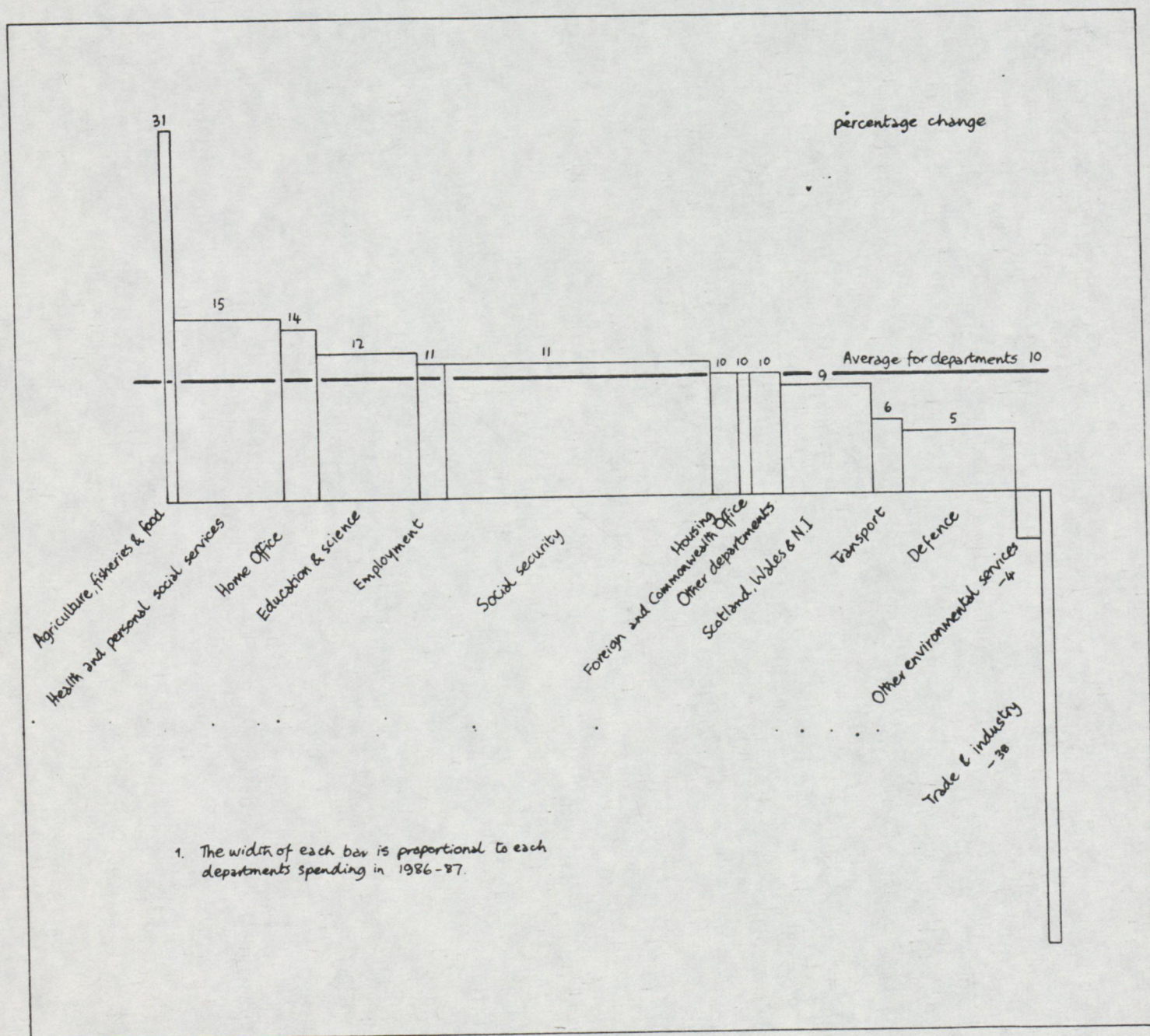
Chart 1.4 Changes in 1987-88 cash spending between 1986 and 1987 public expenditure White Papers

	Cmd 9702 £143.9bn	The White Paper £148.6bn	Changes
Education & science	14.4	16.6	+£2.2bn
Social security	44.4	46.0	+£1.6bn
Home Office	5.2	6.2	+£1.2bn
Health and personal social services	18.5	19.1	+£0.6bn
Housing	2.8	3.2	+£0.4bn
Transport	4.8	5.1	+£0.3bn
Employment	3.8	4.1	+£0.3bn
Other	30.8	29.5	-£1.3bn
Defence	18.8	18.8	No change

Handwritten notes:
 - A bracket groups Home Office, Health and personal social services, Housing, Transport, and Employment, with a total change of 0.7.
 - A bracket groups Other and Defence, with a total change of 0.2.
 - A note '0.6' is written next to the Home Office change.

14. Chart 1.5 illustrates the percentage increases now planned for each of the main / programmes between 1986-87 and 1989-90. It shows how expenditure has been allocated; to the main priority areas including education, health, employment and the Home Office, and to cover higher estimated costs of social security payments and agricultural support.

Chart 1.5 Percentage change in cash provision for departments in between 1986-87 and 1989-90



15. But simply looking at increases in provision does not give a full picture of priorities or developments in spending. A number of other factors need to be taken into account, for example expected **outputs** (what, or how much, the money is expected to buy) and how spending is affected by changing levels of demand.

16. The following paragraphs set out the key features of the Government's plans in each of the main departmental budgets. They highlight the aims and objectives as well as the planned allocation of resources. Summary figures are given in Table 1.6 (page), which shows the cash plans by department, and Table 1.8 (page), which gives the implied trends in real terms. Chart 1.7 (page) illustrates the shares of the main departments in the 1987-88 planning total. Full detail on all departmental plans is given in the individual departmental chapters in Part 3 of this White Paper.

Defence

17. The Government's aims for defence are to ensure the security of the nation and maintain our freedom. Some £18.8 billion has been provided for 1987-88, rising to nearly £19.5 billion in 1989-90.

18. A wide range of measures is in hand to improve efficiency and value for money, particularly through increased competition in equipment procurement. In 1985-86 some 64 per cent of contracts by value were placed by competition or otherwise by reference to market forces, compared to 38 per cent in 1983-84 and 46 per cent in 1984-85.

19. Civilian manpower, taking account of the transfer of personnel to Royal Ordnance plc, has been reduced by about 80,000 since 1979, reflecting improvements in efficiency, a major rationalisation programme and the transfer of tasks to the private sector. Ten years ago there were 79 UK based civilians for every 100 personnel in the regular forces; five years ago there were 69 and the figure now stands at about 52. Further reductions are planned.

20. Although moving from a period of real growth in the defence budget inevitably brings with it some difficult decisions, the UK's defence capabilities will continue to benefit from major re-equipment programmes for all three Services. Major orders since 1979 have included 55 major ships, seven regiments of Challenger tanks and more than 500 aircraft for the Royal Air Force.

Foreign and Commonwealth Office (including the Overseas Development Administration)

21. The main aims of the overseas aid programme are to promote sustainable economic and social development and to alleviate poverty in developing countries, particularly

the poorest. Political and commercial considerations are also taken into account in allocating funds.

22. The gross aid programme for 1987-88 is £1308 million, and the revised plans will maintain the overseas aid programme at the same level in real terms as in 1986-87 during the rest of the planning period. About 60 per cent of the programme is spent on bilateral aid - around 70 per cent of which goes to the poorest 50 countries. The main focus is on long term development, but emergency relief is also provided where most needed. The remaining 40 per cent of the aid programme is provided as multilateral aid through channels such as the World Bank Group, the European Community and various United Nations Agencies.

23. The main aims of the **diplomatic wing** of the Foreign and Commonwealth office are to enhance the security and prosperity of the UK and dependent territories, and to promote and protect British interests overseas. £700 million is provided in 1987-88. This includes additional provision to combat the increasing threat to the security of the staff and property overseas of the Diplomatic Service and the British Council, and to offset some of the additional costs of the new visa requirements.

24. The overall demand for the FCO's commercial and consular services abroad has risen steadily in recent years and the trend is expected to continue. For example, the number of British business visitors using the FCO's services abroad rose by 18 per cent between 1980 and 1985, and the number of British nationals travelling abroad has increased by 300 per cent in the last 15 years, with a corresponding increase in public demand for advice and protection.

Agriculture

25. Spending on agriculture is intended to foster an efficient and competitive agricultural industry, taking account of the interests of producers, processors, traders and consumers. Total **domestic** spending is planned to stay broadly constant in cash terms, but since the last White Paper provision has been made for additional spending of some [redacted] to fund flood defence works.

26. The increased spending over the period of the plans is mainly accounted for by expected additional expenditure on market support under the European Community **Common Agricultural Policy (CAP)**. The Government will continue to seek changes in the CAP to bring this spending under better control.

Table 1.6 Public spending in cash terms by department¹

	£ billion					
	1984-85 outturn	1985-86 outturn	1986-87 estimated outturn	1987-88 plans	1988-89 plans	1989-90 plans
Defence	17.2	18.0	18.6	18.8	19.0	19.5
Foreign & Commonwealth Office ²	1.8	1.8	2.0	2.1	2.1	2.2
European Community	1.0	0.8	1.1	0.9	0.4	1.1
Ministry of Agriculture, Fisheries and Food ³	2.0	2.4	1.9	2.3	2.4	2.5
Trade and Industry ⁴	2.1	1.8	1.6	1.3	1.1	1.0
Energy	2.6	0.7	0.2	-0.1		-0.2
Employment	3.1	3.4	3.9	4.0	4.2	4.3
Transport	4.6	4.6	4.9	5.1	5.1	5.1
DOE - Housing	3.3	2.8	2.8	3.2	3.0	3.1
DOE - Other environmental services	4.0	3.9	4.1	3.8	3.9	3.9
Home Office ⁵	5.1	5.3	5.9	6.2	6.4	6.6
Education and Science	14.0	14.5	16.0	16.6	17.4	17.8
Arts and Libraries	0.7	0.7	0.8	0.8	0.8	0.9
DHSS - Health and personal social services	15.8	16.6	18.0	19.1	19.9	20.8
DHSS - Social security	38.1	41.5	44.5	46.0	47.5	49.3
Scotland	7.0	7.2	7.8	8.0	8.1	8.2
Wales	2.6	2.8	3.0	3.2	3.3	3.4
Northern Ireland	4.1	4.3	4.7	4.9	5.1	5.2
Chancellor's Departments	1.7	1.8	2.1	2.2	2.3	2.4
Other Departments ⁶	1.2	1.3	1.5	1.7	1.8	1.9
Reserve				3.5	5.5	7.5
Privatisation proceeds	-2.1	-2.7	-4.8	-5.0	-5.0	-5.0
Adjustments ⁷			[-0.4]			
Planning total⁸	129.8	133.6	[140.4]	148.6	154.2	161.5
General government gross debt interest	16.1	17.7	17.5	18	18	19
Other National Accounts adjustments	4.3	7.2	6.5	7	7	8
General Government expenditure	150.1	158.6	[164.4]	173.7	179.6	187.8

1 Figures rounded to £0.1 billion, except for the forward year figures for general government gross debt interest and other National Accounts adjustments, which are round to the nearest £ billion. (In case of the total general government expenditure, rounding to £0.1 billion does not imply accuracy to this degree.) Includes all spending on departmental policies, whether through central government, local authorities or public corporations. More information is given in Part 2, Table 2.1.

2 including Overseas Development Administration.

3 including Intervention Board for Agriculture Produce and Forestry Commission.

4 including Exports Credit Guarantee Department.

5 including Lord Chancellor's Department.

6 including Property Services Agency and Civil Superannuation.

7 The 1986-87 estimated outturn figure includes external finance of -£400 million for nationalised industries to be privatised that year [and an allowance for shortfall].

8 Total have been rounded independently.

Trade and Industry (including Exports Credits Guarantee Department)

27. Spending is aimed mainly at encouraging and helping trade and industry to increase national production of wealth by competing successfully in the United Kingdom and abroad. Particular emphasis is given to carefully targetted industrial research and development and selective financial assistance intended to improve the technological and commercial competitiveness of UK companies. The estimated costs of interest support for fixed rate export finance have been reduced since the last White Paper.

28. Overall, provision falls over the period of the plans to £950 million in 1989-90. This decline reflects the increased ability of the nationalised industries sponsored by the Department to meet their financing requirements from within their own resources.

Energy

29. The Government wishes to see the best economic use made of the nation's energy resources. This is pursued through the Department's spending on research and development, and schemes to promote energy efficiency.

30. The trend in the Department's total spending is dominated by the finances of the nationalised energy industries. Increased external financing limits for these industries, particularly in 1987-88, take account of reduced market prices for energy following the fall in oil prices, and higher investment in British Coal and the Electricity Supply Industry. The cost of payments for miners' redundancies in 1987-88 and 1988-89 is expected to fall compared with the last White Paper, partly as a result of bringing forward of payments into 1986-87.

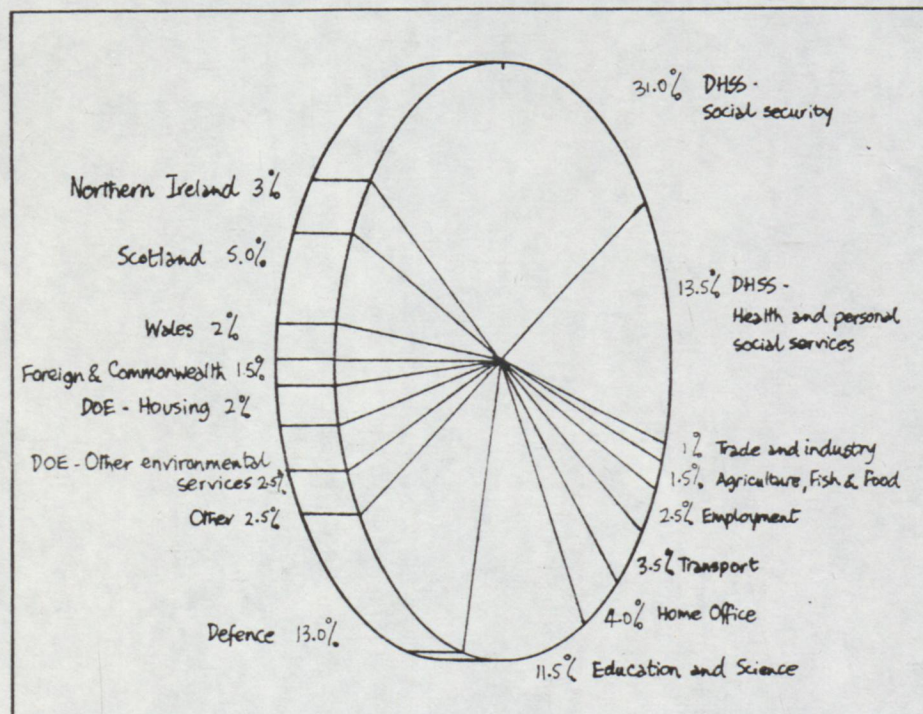
Employment

31. The main aims are to promote enterprise and job creation, to assist unemployed people, to promote training, to help the labour market work more efficiently and to improve health and safety at work and industrial relations.

32. Major new enterprise and employment measures were announced in the 1986 Budget and these are now reflected in departmental plans. Extra spending since then on central government programmes (notably the Technical and Vocational Education Initiative, on an increase in the number of Job Clubs, and higher payments from the Redundancy Fund) has been offset by savings elsewhere in the programme.

33. Promoting enterprise and job creation is a priority area; for instance, numbers helped through the Enterprise Allowance Scheme are planned to rise from around 60,000 in 1985-86 to 100,000 by 1987-88. Increases in efficiency have been achieved in many areas and more are planned. For example, placings per staff unit in jobcentres are forecast to rise from 286 in 1985-86 to 320 in 1989-90. The employment resettlement rate achieved by the employment rehabilitation service has risen from 32 per cent in 1983-84 to 44 per cent in 1986-87, and is forecast to rise further; meanwhile costs per client week will have been reduced from £183 in 1984-85 to £170 in 1986-87 and £166 by 1988-89. The unemployment benefit service's staff: claimant ratio is forecast to improve from 1:122 in 1986-87 to 1:131 in 1989-90.

Chart 1.7 Planning total by department in 1987-88



Transport

34. The Department seeks to increase efficiency and reduce unit costs of transport, for example, by maintaining and improving a national road system; to promote and improve safety; to conserve the environment; and to advance United Kingdom transport interests abroad.

35. The Department's spending is increasingly focussed on the infrastructure, rather than on current subsidies. Compared with this year, provision for capital spending

on national roads will be increased by about 13 per cent by 1989-90. Among other forward targets the department plans to complete motorway and trunk road schemes totalling around 450 miles, to renew 80 miles of motorway each year, and it expects local authorities to complete 105 major local roads schemes in 1987-88. Provision for support to British Rail falls over the period of the plans.

DOE - Housing

36. The main aim of Government policy is to give people a better choice of housing by encouraging the spread of home ownership for those who want it and providing a wider variety of rented housing for those who do not want it or cannot afford it. Well over 1 million public sector dwellings in Great Britain have been sold to their tenants since 1979, mainly through the Government's right to buy legislation.

37. Most expenditure on housing comes from the private sector. Nevertheless gross capital public expenditure is estimated at £3.4 billion in 1986-87, and is planned to rise to £3.7 billion in 1987-88. Nearly £3 billion of this will be spent by local authorities, and the rest by the Housing Corporation and new towns. The increased provision in 1987-88 will allow greater local authority investment mainly on renovation of their own stock, including £75 million of targetted capital allocations to be made through Estate Action (formerly the Urban Housing Renewal Unit). It will also allow £20 million to be spent by the Housing Corporation on pilot housing association schemes primarily financed by the private sector. These schemes, which will provide some £65 million worth of additional investment, will be aimed at helping homeless families and young job movers.

DOE - Other Environmental Services

38. Spending under this programme, which covers a wide range of environmental, economic and recreational services, is diverse in its subject matter and objectives. Most is undertaken by local authorities according to local priorities. More directly the Government also spends through sponsored bodies and its own programmes. It aims to target public money on areas of greatest need, and where it most encourages private sector funding.

39. The Government attaches high priority to tackling inner city problems. For example, the *Urban Programme* in 1986-87 is expected to create or preserve 23,450 jobs, and derelict land grant should lead to the reclamation of 1,300 hectares of derelict land. Provision for urban spending is being increased by £40 million in 1987/8 to £230 million, and is planned to be maintained at this level in 1988-89 and 1989-90. 4 new urban development corporations (in Greater Manchester, Teeside,

the Black Country and Tyne and Wear), will be set up to build on the success in the London Docklands and Merseyside in regenerating urban areas with particularly concentrated problems of dereliction and unemployment.

40. Resources for wildlife, countryside and heritage programmes are also being increased to meet specific objectives - protection of natural habitats through Wildlife and Countryside Acts, improved access to the countryside and provision of repair grants for historic buildings.

Home Office and Lord Chancellor's Department

41. The main aims of the criminal justice system are to prevent and detect crime, administer the courts effectively, deal adequately and sensibly with the guilty, and give proper effect to the sentences imposed on them.

42. The number of notifiable offences cleared up by the police rose by 22 per cent between 1980 and 1985; total police strength (including civilians) rose by just under 3 per cent between 1980-81 and 1984-85. For 1987-88, there is provision for total police strength to rise to 169,464 compared with an average of 166,752 in 1986-87.

43. The Government's policy is that resources provided for court services should broadly keep pace with changes in the courts' business, with due allowance being made for improvements in efficiency. In 1985, 2.1 million defendants were proceeded against in Magistrates Courts and some 99,000 cases were committed for trial to the Crown Court.

44. The prison population is expected to average 46,700 in 1986-87, and to rise to 50,700 in 1989-90. Manpower costs account for about 60 per cent of prison service expenditure. The Government has published proposals for far reaching reforms of shift and complementing systems, and has put them to the unions and staff associations involved together with an offer on revised pay arrangements. The new working methods proposed should enable prison manpower to be used more efficiently.

Education and Science

45. The Government's main aims for education are to raise standards at all levels of ability and to secure the best possible return from the resources which are invested in the education service. The Government's aim for science is to maintain and enhance the strength and quality of the science base. Total spending of £16.6 billion is now planned in 1987-88, most of it by local authorities.

Table 1.8 Public spending in real terms by department¹

	1984-85 outturn	1985-86 outturn	1986-87 estimated outturn	1987-88 plans	£ billion (base year 1985-86)	
					1988-89 plans	1989-90 plans
Defence	18.2	18.0	18.1	17.6	17.2	17.1
Foreign & Commonwealth Office	1.9	1.8	1.9	1.9	1.9	1.9
European Community	1.0	0.8	1.1	0.8	0.4	0.9
Ministry of Agriculture, Fisheries and Food	2.1	2.4	1.9	2.1	2.2	2.2
Trade and Industry	2.2	1.8	1.6	1.2	1.0	0.9
Energy	2.7	0.7	0.2	-0.1	-	-0.2
Employment	3.3	3.4	3.8	3.8	3.8	3.8
Transport	4.9	4.6	4.8	4.8	4.6	4.5
DOE - Housing	3.4	2.8	2.7	3.0	2.7	2.7
DOE - Other enviromental services	4.2	3.9	4.0	3.6	3.5	3.5
Home Office	5.4	5.3	5.7	5.8	5.8	5.8
Education and Science	14.8	14.5	15.5	15.6	15.7	15.7
Arts and Libraries	0.7	0.7	0.8	0.8	0.8	0.8
DHSS - Health and personal social security	16.7	16.6	17.5	17.9	18.0	18.3
DHSS - Social security	40.4	41.5	43.2	43.1	43.0	43.4
Scotland	7.5	7.2	7.6	7.5	7.3	7.2
Wales	2.8	2.8	2.9	3.0	3.0	3.0
Northern Ireland	4.3	4.3	4.5	4.6	4.6	4.6
Chancellor's Department	1.8	1.8	2.0	2.1	2.1	2.1
Other Departments	1.2	1.3	1.5	1.6	1.7	1.7
Reserve				3.3	5.0	6.6
Privatisation proceeds	-2.3	-2.7	-4.6	-4.7	-4.5	-4.4
Adjustments			[-0.3]			
Planning total	137.6	133.6	[136.5]	139.3	139.7	142.1
General Governments gross debt interest	17.0	17.7	17.0	17	16	16
Other national accounts adjustments	4.5	7.2	6.5	6	7	7
General Government expenditure	159.1	158.6	[159.9]	162.8	162.7	165.2

¹ Cash figures adjusted for general inflation. Footnotes to Table 1.6 also apply except that the detailed figures are given in Part 2.

46. Three quarters of school leavers achieved 5 or more graded GCE or CSE results in 1984-85, an increase of over 50 per cent more than ten years previously. Increased provision for schools capital expenditure, taken together with their increased spending power from receipts, will enable local authorities to maintain progress with removing surplus places while providing new places where necessary. The very substantial increase ⁱⁿ teachers pay provisionally included in these plans would represent a further substantial investment in better schools. The new City Technology Colleges will widen choices in inner cities and provide models for effective teaching. In higher education extra funding has been provided for the universities as part of an agreed programme including selectivity in research funding, rationalisation, better financial management, and improved standards of teaching. The number of students obtaining first degrees is forecast to be around 125,000 in 1990, an increase of some 20 per cent over the preceding decade.

DHSS - Health and Personal Social Services

47. The aim of the National Health Service is to make the best use of resources to help people stay healthy, and to give them effective treatment and care where necessary. In England, spending will increase by almost £1 billion next year, an increase of 2.5 per cent in real terms, continuing the trend in previous years. Total spending will rise from £17.9 billion in 1986-87 to over £20.7 billion by 1989-90.

48. Specific targets for service improvements have been set, for example for hip replacement and cataract operations, coronary artery by-pass operations and bone marrow transplants. Other current problems such as drug misuse and AIDS are being tackled. A full series of performance indicators is being developed to enable managers to make informed judgements about the use of the NHS resources they control.

49. The total plans for hospital spending include £80 million over two years earmarked for two key areas; £50 million for specific measures to tackle waiting lists and waiting times, and £30 million to allow for the continued improvement of services in areas where the population is growing while protecting services in the inner cities.

50. Health authorities will keep the benefit of cash released through their cost improvement programmes. These are expected to yield a further £150 million in 1986-87 on top of the £390 million cumulative savings achieved in the years prior to that.

51. Primary health care, given by family doctors, dentists, pharmacists and opticians, will also expand. The plans allow for forecast demand to be met in full,

meeting the various pressures on these services from demographic and social changes, and from medical advances.

52. The provision for personal social services takes full account of demographic and other pressures. Planned expenditure in 1987-88 also allows for faster progress on the shift to community care.

Social Security

53. The aim of the social security system is, within the Government's wider social and economic policies, primarily to provide for retirement pensioners and to give an efficient and responsive system of financial help to others who need it. Provision has been raised in the light of higher levels of spending identified this year and reflects the latest estimates of benefit expenditure over the next three years. Spending in 1987-88 is now planned to be £46 billion, rising to £49.3 billion in 1989-90.

54. About half (over £23 billion) of the budget will be paid to elderly people. Since the Government came to office the number of people receiving pensions has increased by 12 per cent. Benefits paid to the sick and disabled have increased by [30] per cent in real terms over the same period.

The Reserve

55. The Reserves are intended to provide a margin to meet contingencies including estimating changes.

56. The Reserve for 1987-88 has been set at £3½ billion. The Reserves for 1988-89 and 1989-90 are £5½ billion and £7½ billion respectively. These Reserves are larger, both absolutely and as a percentage of the planning total, than in any White Paper except last year's, where the unusual treatment of local authorities' spending required exceptionally high Reserves (see paragraph 69). Substantial additions to departmental provision have been made in the latest spending review for spending by local authorities and on social security, the two main areas where spending has exceeded plans in 1986-87.

Privatisation

57. The privatisation programme is moving forward strongly. It is increasing efficiency, by competition and other means, and widening share ownership.

58. Privatisation allows more incentives for management and employees, many of whom have become shareholders in their companies. The improved performance of

privatised businesses benefits consumers, employees and the economy as a whole. Following the sale of the British Gas Corporation the proportion of GDP accounted for by state owned businesses has fallen by nearly one third since 1979, from 11% to 7½%. In total the number of individual shareholders in the UK has doubled since 1979.

59. Proceeds from privatisation are, in line with international conventions, netted off the public spending figures. The estimates of receipts in 1987-88 and 1988-89 have been increased by £250 million in each year, compared with the last White Paper, to £5 billion. Receipts in 1989-90 are also expected to be £5 billion.

The planning total and general government expenditure

60. Differences between the planning total and general government expenditure and shown at the bottom of table 1.6 (page). Further details are given in Part 2. The main item is general government gross debt interest payments, which are forecast to be about £18 billion in 1987-88 and 1988-89 and £19 billion in 1989-90.

Main changes in the plans

61. Table 1.9 gives figures for changes in the aggregate planning totals between successive sets of plans. It shows, for each year since 1981-82, how the latest planning totals and outturns compare with the plans when they were first set. Table 1.10 gives equivalent comparisons for general government expenditure as a percentage of GDP.

Table 1.9 Public expenditure⁽¹⁾ plans and outturns

	£ billion									
	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	
March 1981 White Paper (Cmnd 8175) ⁽²⁾⁽³⁾	104.4	109.9	113.6							
March 1982 White Paper (Cmnd 8494) ⁽³⁾	105.7	114.7	120.7	127.7						
Feb 1983 White Paper (Cmnd 8789)	104.6	113.1	119.6	126.5	132.3					
Feb 1984 White Paper (Cmnd 9143)	104.7	113.4	120.4	126.5	132.1	136.8				
Jan 1985 White Paper (Cmnd 9428)	104.6	113.5	120.3	128.2	132.1	136.8	141.6			
Jan 1986 White Paper (Cmnd 9702) ⁽³⁾	103.9	113.4	120.3	129.6	134.2	139.1	143.9	148.7		
This White Paper	104.0	113.5	120.3	129.8	133.6	[140.4]	148.6	154.2	161.5	

(1) Public expenditure planning total as defined in this White Paper

(2) Converted into cash as explained on page 103 of Cmnd 8494 Volume 2

(3) Including changes announced in the Budgets Statements preceding the years in question

Table 1.10 General Government expenditure as a percentage of GDP, plans and outturns

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	per cent 1989-90 plans outturn & estimated outturns
March 1984 FSBR	45 $\frac{3}{4}$	44 $\frac{1}{2}$	43 $\frac{1}{2}$	42 $\frac{1}{2}$			
March 1985 FSBR	45 $\frac{3}{4}$	45 $\frac{3}{4}$	45	43 $\frac{1}{2}$	42 $\frac{1}{4}$		
January 1986 White Paper	45 $\frac{3}{4}$	45 $\frac{3}{4}$	44 $\frac{3}{4}$	42 $\frac{3}{4}$	41 $\frac{3}{4}$	41	
This White Paper	45 $\frac{3}{4}$	45 $\frac{1}{2}$	44	43 $\frac{1}{4}$	42 $\frac{3}{4}$	41 $\frac{3}{4}$	41 $\frac{1}{4}$

Where it goes

62. Chart 1.11 gives an analysis of total United Kingdom spending by function. The main difference from the departmental analyses, for example in charts 1.4 and 1.5, is that spending in Scotland, Wales and Northern Ireland is included in the same functional groups as spending in England. The chart shows the trends in the proportions of programme spending (that is, excluding the Reserve and privatisation proceeds) going to different types of spending since the Government came to office.

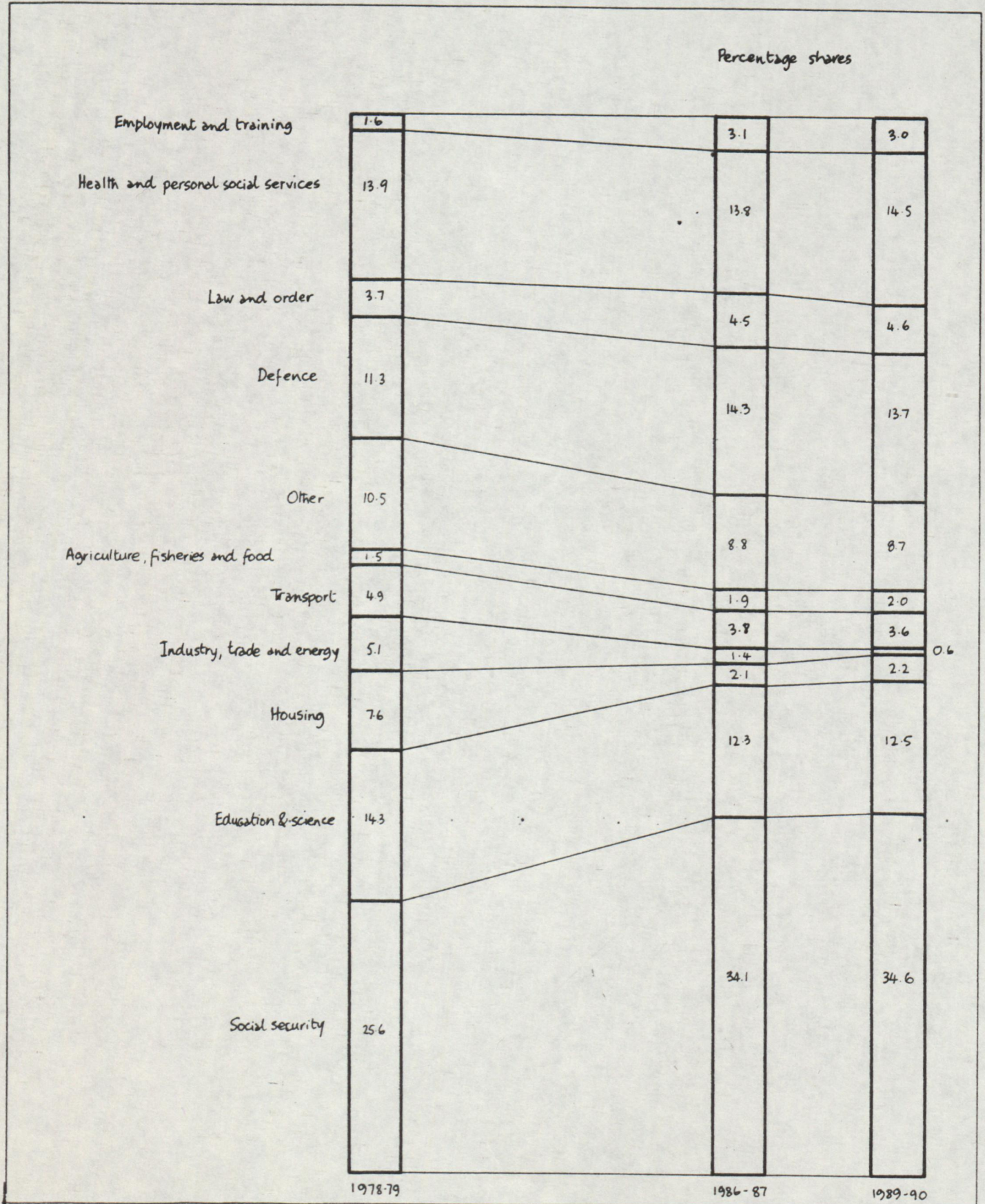
63. The Government has steadily increased the priority given to health and personal social services. Its share of the total increased from [] in 1978-79 to [] in 1986-87. It is planned to rise further to [] per cent by 1989-90. Priority has also been given to spending on law and order - increased from 3 $\frac{1}{2}$ per cent in 1978-79 to [4 $\frac{1}{2}$] per cent in 1986-87; this percentage is maintained over the rest of the period of the plans. The percentage share of the total taken by spending on employment and training is planned to double between 1978-79 and 1989-90, from 1 % to 3 %.

64. The fall in the education and science share between 1978-79 and 1986-87 reflects the fall in the size of school rolls, but spending per pupil rose by [] per cent in real terms over the same period. Some increase in the share is now planned over the next three years. Defence spending was increased from 11 per cent in 1978-79 to nearly 14 $\frac{1}{2}$ per cent in 1986-87; a slight fall in the percentage is now planned as the benefits from past increases continue to be felt and the programme of efficiency improvements continues to grow.

65. Spending on social security (including pensions) has risen from 26 per cent of the total in 1978-79 to 34 per cent in 1986-87, reflecting increasing numbers of beneficiaries and some real increase in the level of payments. A further increase of [$\frac{1}{2}$] per cent is expected by 1989-90.

66. In other areas, the Government has reduced the extent of public sector involvement in providing services. Gross spending on public sector housing, and subsidies to trade, industry and energy, have been reduced substantially as a share of total spending. This is a reflection of Government policies for the private sector to provide a greater share of housing needs, and for support to both private and public sector industry to be reduced as profitability improves.

Chart 1.11 Public Spending by Function



Who spends it - public spending by spending authority

67. Central government is responsible for spending about three quarters of the planning total, with local authorities spending most of the rest. The remainder is the net amount that nationalised industries and other public corporations need to finance their activities. The figures are set out in table 1.12 below.

Table 1.12 Planning total by spending authority¹

	1984-85 outturn	1985-86 outturn	1986-87 estimated outturn	1987-88 plans	1988-89 plans	1989-90 plans
						£ billion
Central government ²						
Voted in Estimates	66.3	71.3	74.4	76.3	78.7	81.1
other	25.8	27.1	30.4	32.0	32.5	34.6
Total Central Government	92.1	98.5	104.8	108.3	111.2	115.7
Local authorities ²						
relevant current	26.0	26.9	29.6	31.0	32.2	33.1
other current	4.2	4.5	4.8	4.9	4.9	5.2
capital	4.7	3.9	4.2	4.3	4.0	4.1
Total Local Authorities	34.9	35.2	38.7	40.2	41.1	42.4
Nationalised industries	3.8	1.7	1.0	0.7	0.3	-0.1
Other public corporations	1.1	0.9	0.8	1.0	1.0	1.1
Reserve				3.5	5.5	7.5
Privatisation proceeds	-2.1	-2.7	-4.8	-5.0	-5.0	-5.0
Adjustments ³			[]			
Planning total	129.8	133.6	[140.4]	148.6	154.2	161.5

1 Detailed figures are provided in Part 2, Table 2.6.

2 Central and local government finance for public corporations is included in the nationalised industries and other public corporations lines.

3 The 1986-87 estimated outturn figure includes external finance of -£400 million for nationalised industries to be privatised that year [and an allowance for shortfall].

Central Government

68. About 70 per cent of central government spending within the planning total is voted by Parliament through the annual Supply Estimates. The rest consists mainly of those social security payments which are paid out of the National Insurance Fund.

69. In total about 40 per cent of central government spending goes on social security. The two other largest components are defence and health.

Local authorities

70. Spending by local authorities accounts for about a quarter of public spending. Education spending is over 40 per cent of the local authority total, with most of the rest spent on law and order, housing and other environmental services, personal social services and transport expenditure. Detailed material on local authority spending and how it is financed is given in part 4 of this White Paper.

-Current spending

71. Local authorities' current spending has continued to exceed the Government's plans, by an estimated £2.7 billion in 1986-87. This has led to calls on the Reserve and added to burdens on rate-payers.

72. No decision was taken last year on provision for 1987-88 and 1988-89 and the figures in Cmnd 9702 were set at the same cash levels as for 1986-87. This was taken into account in setting the level of the Reserves for those two years. Including provision for teachers pay, the plans now allow for annual increases of 4½ per cent, 4 per cent and 2¾ per cent respectively over the estimated outturn for 1986-87.

73. Aggregate Exchequer Grant to local authorities for 1987-88 has been set at £16.4 billion, £1.4 billion more than for 1986-87. A range of measures should constrain spending and protect rate-payers. 20 English local authorities will be subject to rate-capping. In addition, automatic precept control for the 20 authorities set up for fire, police and transport in the metropolitan areas, and for fire and education in the London area, continues. In England and Wales the Government also proposes to abolish grant recycling, the process whereby grant not claimed by high spending authorities is redistributed. This will give authorities greater certainty about their grant entitlements and provide a tougher regime for high spenders. In Scotland, guidelines and grant penalties for exceeding them will continue and the Government will again take action to reduce the rates of any authorities planning excessive and unreasonable expenditure.

74. The Audit Commission has estimated that efficiency gains of approaching £2 billion are possible in local authorities in England and Wales. Value for money studies are also under way in Scotland. The Government continues to look to authorities to improve their efficiency and economy in delivering services and is introducing legislation to expose a wider range of their services to competition to secure better value for money.

- Capital expenditure

75. Local authority gross capital spending in Great Britain in 1986-87 is forecast to be £6.5 billion. After allowing for capital receipts, particularly from sales of council housing, net spending is forecast to be £4.1 billion, £0.5 billion higher than provided for in the last White Paper. These figures remain subject to some uncertainty.

76. Gross provision in 1987-88 has been increased by £0.7 billion to £6.6 billion. Provision of £6.4 billion and £6.5 billion has been made for 1988-89 and 1989-90 respectively. Within this provision the amount which is issued as allocations (permissions to spend) will take account of the expected use by local authorities of the spending power also available to them from other sources, notably capital receipts. The relationship between provision and allocations and the use of receipts are discussed in Part 4 of the White Paper.

Nationalised Industries

77. The planning total includes nationalised industries' external finance - their borrowing and leasing - plus grants from the Government. Detailed information is given in Part 5 of this White Paper.

78. External finance in 1987-88 and 1988-89 is planned to be £680 million and £350 million more, respectively, than provided for in Cmnd 9702. These increases mainly reflect reduced market prices for energy supplies following the fall in oil prices, (this particularly affects British Coal), and higher planned investment.

79. A progressive reduction in the external financing requirements of the nationalised industries from the level in 1987-88 is expected in 1988-89 and 1989-90.

80. The Government will continue to set demanding objectives for industries which improve on achievements to date. The British Steel Corporation's productivity has risen by nearly 80 per cent since 1979. The Post Office's unit costs ^{have fallen} by nearly 10 per cent in real terms since 1981-82. British Coal's productivity is now 50 per cent higher than before the miner's strike.

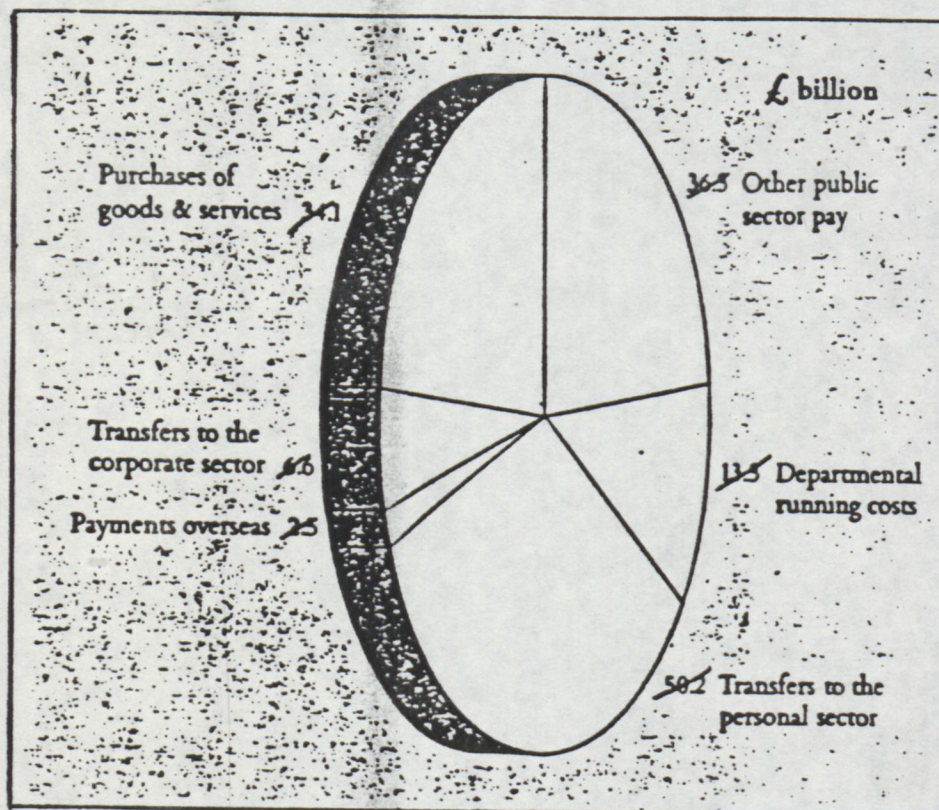
What it is spent on - public spending by economic category

81. Chart 1.13 below shows the main economic categories, and their share of the planning total in 1987-88. Some [] billion ([] per cent) will take the form

of cash payments to the personal sector - mainly pensions and other social security benefits. Departmental running costs amount to [] billion ([] per cent). Transfers to the corporate sector include capital grants to private sector companies, nationalised industries and List I and II public corporations, lending to nationalised industries and List I and II public corporations, and subsidies to trading bodies. Other purchases of goods and services from the private sector and other public sector pay both account for around a quarter of the planning total.

82. As last year, no general assumption has been made about the rate at which rates of pay and allowance will increase in 1987-88, though the Government wishes to see the development of greater flexibility eg in the linking of pay to performance and in relating pay in different areas more closely to local labour market conditions. But if pay increases overall are unrealistically high, there will be less money available for other purposes, and services, investment and employment will be the less.

Chart 1.13 Planning total by economic category in 1987-88



83. The mix between these forms of spending varies greatly between different departmental areas. Volume II of this White Paper includes tables showing the broad economic categories of spending by each department.

Capital spending

84. Details of public sector capital spending by department are given in Table 1.14. Around £1 billion has been added to gross capital spending in 1987-88 and around £800 million in 1988-89 in the latest spending review, £0.7 billion and £0.5 billion respectively of which is for local authorities. The largest single increase in gross provision is for housing, which has increased by £450 million in 1987-88 and £350 million in 1988-89.

85. Total general government capital spending is expected to remain broadly stable over the period of the plans, at about £15 billion a year. Total public sector capital spending - including spending by the nationalised industries and capital grants to the private sector - is expected to be at or above £22 billion in each year of the plans.

86. These figures exclude most repair and maintenance spending and do not therefore measure the total flow of work from the public sector to the construction and capital goods industries. The problems of drawing the dividing line between capital and current spending, and details of the coverage of table 1.14 are discussed in Part 2 of this White Paper.

Table 1.14 Public sector capital spending by department

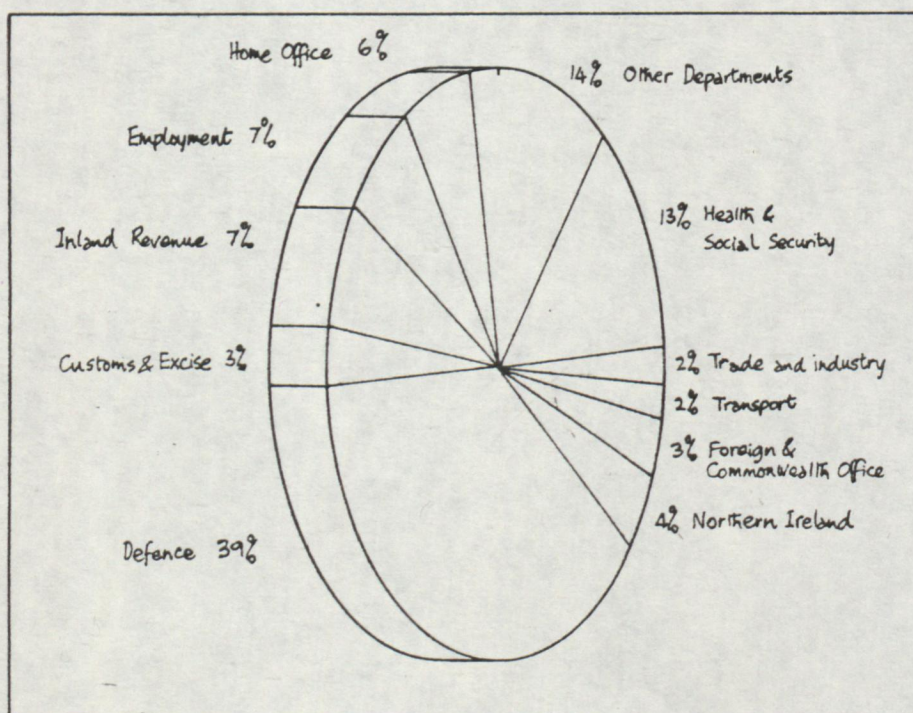
Department	£ billion					
	1984-85 outturn	1985-86 outturn	1986-87 esti- mated outturn	1987-88 plans	1988-89 plans	1989-90 plans
Ministry of Defence	5.4	5.7	5.9	5.8	5.7	5.8
Trade and Industry	1.0	0.8	0.8	0.6	0.6	0.6
Energy	1.7	1.9	1.9	1.9	2.0	2.1
Transport	1.9	1.9	1.9	2.1	2.3	2.3
DOE - Housing	3.8	3.2	3.1	3.4	3.1	3.2
DOE - Other Enviromental Services	2.0	2.0	2.2	2.0	2.0	2.1
Home Office	0.4	0.5	0.5	0.6	0.6	0.6
Education and Science	0.7	0.8	0.9	0.7	0.7	0.7
DHSS - Health and personal social services	0.9	1.0	1.1	1.0	1.1	1.1
Scotland	2.0	2.0	2.1	1.9	1.9	1.9
Wales	0.6	0.6	0.7	0.7	0.7	0.7
Northern Ireland	0.6	0.6	0.7	0.7	0.6	0.6
Other	0.6	0.6	0.7	0.7	0.7	0.6
Total Public Sector Capital Spending	21.7	21.6	22.6	22.0	22.0	22.4
of which:						
General government	14.3	14.3	15.0	14.8	14.7	15.0
Public Corporation	4.2	4.6	4.7	4.6	4.8	5.0
Capital grants to the private sector	3.2	2.7	2.9	2.7	2.5	2.5
Real terms (base year 1985-86)	23.0	21.6	21.9	20.7	19.9	19.7

The figures for 1987-88, 1988-89 and 1989-90 make no allowance for allocations to capital spending from the Reserve.

Running Costs and Manpower

Civil Service Running Costs

Chart 1.15 Running costs by department in 1987-88



7. The main element of department's running costs is the pay bill (about two-thirds of the total) but they also cover accommodation, personnel overheads and office services. The use of a running costs control total for all three forward years, which was introduced last year, will help to improve financial management in departments and also reflect the Government's determination to exert a downward pressure on administrative costs.

Civil Service running costs

88. Running costs provision for 1987-88 is some £[13] billion. Chart 1.15 gives a broad departmental breakdown of the main running costs targets in 1987-88. Table 2.13 in Part 2 of this White Paper gives details of the departmental plans for 1987-88 compared with the outturn for 1985-86 and the estimated outturn for 1985-86 and the estimated outturn for 1986-87. This shows that running costs increased by [] per cent between 1985-86 and 1986-87 and are expected to increase to by a further 3.7 per cent in 1987-88. Limits on departmental running costs will be set when 1987-88 Supply Estimates are presented to Parliament.

Public sector manpower

89. Chart 1.16 shows public sector manpower by employing authority in April 1986, with a separate breakdown of Civil Service manpower. Of the total of 5,578,000 42 per cent is accounted for by local authorities; 20 per cent by public corporations; 18 per cent by the National Health Service; [11] per cent by the Civil Service; and 6 per cent by the Armed Forces.

Civil Service manpower

90. The Government has not announced manpower targets beyond 1.4.88. The 1.4.88 target of [591,500] represents a fall of [140,800] since April 1979. Departments' manpower plans for the later years show a further fall to 1.4.89 [585,000] with a slight rise to [585,800] by 1.4.90. The Government will review the need for continuing separate manpower targets beyond 1.4.88 in the light of experience of the new running costs control arrangements.

91. Within the plans extra resources have been allocated to DHSS local offices; employment measures; the prevention of drug trafficking; revenue collection and for the Crown Prosecution Service. Table 2.14 in Part 2 of this White Paper gives manpower figures for each department, together with manpower data for other parts of the public sector.

Armed Forces

92. For the armed forces, manpower (including locally engaged personnel) is expected to fall from 332,600 in April 1986 to 329,700 in April 1988. Improved procedures

have been introduced to set the minimum levels of service and manpower needed to support the defence programme.

National Health Service

93. By [March 1986] the number of NHS employees in Great Britain was [983,000], [7] per cent above the 1978-79 level. There are now more front-line staff in the NHS than ever before - 12,000 more doctors and dentists, 20,000 more professional and technical staff and 63,000 more nurses and midwives in the NHS at the end of March 1986 than at the end of 1978.

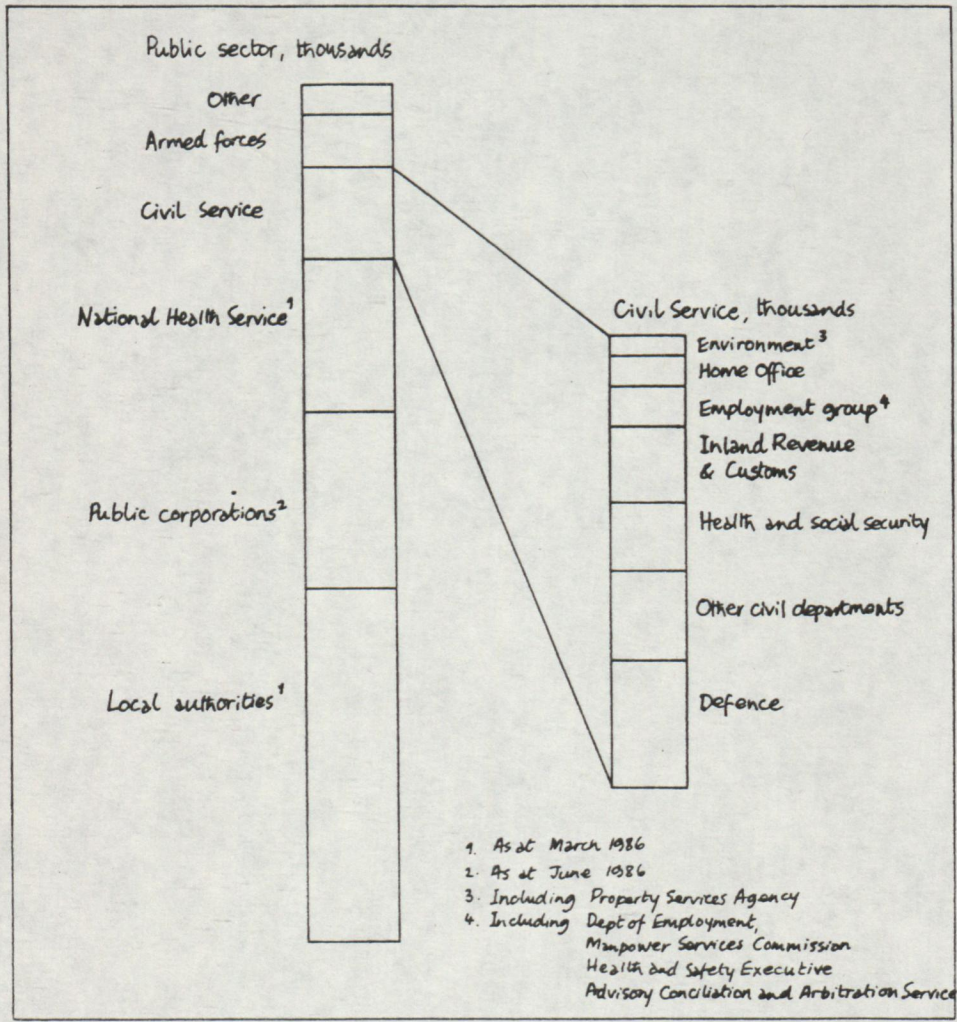
Public Corporations

94. By June 1986, manpower numbers of public corporations had fallen to 1,130,000, a reduction of 44 per cent on the 1978-79 level; this mainly reflects the effects of privatisation (eg British Telecom, National Freight Corporation) and increased productivity.

Local authorities

95. Manpower accounts for about three quarters of local authorities' relevant current expenditure. By March 1986 local authorities manpower at 2,337,000 was marginally above the level in 1978-79 with reductions achieved between 1979 and 1982 offset in recent years as more staff have been allocated to the community programme. Increased resources have been provided for law and order, in line with the Government's priorities in this area while numbers in education have fallen, reflecting reductions in school rolls. Reports by the Audit Commission have demonstrated the importance of better use of manpower in securing value for money improvements.

Chart 1.16 Public Sector Manpower in 1986



SECRET

per Auburn Statement
1986.

24

Table 1: Changes to Planning Total

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
1. Opening Reserves (after Budget measures)	6.1	7.9	9.6
2. Total additions to programmes (see C(86)22)	7.5	8.1	10.6
3. Excess over Reserves	<u>1.4</u>	<u>0.2</u>	1.0
4. less increase in privatisation proceeds	-0.2	-0.2	-0.2
5. New Reserves required	<u>3.5</u>	<u>5.5</u>	<u>7.5</u>
6. Increase in planning total (3-4+5)	4.7	5.5	8.3
7. Baseline	143.9	148.7	153.2
8. New planning totals	148.6	154.2	<u>161.5</u>

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SECRET (until after Autumn Statement)

Table 2: Public Expenditure Trends

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	
(i) Planning total (cash)	133.6	140.4	148.6	154.2	161.5	
(ii) Planning total (real terms 1985-86 prices)	133.6	136.5	139.3	139.6	142.1	
Percentage change	-2.9	2.2	2.0	0.2	1.7	
Average over Survey					1.3	
	<u>1978-79</u>	<u>1982-83</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
(iii) General government expenditure as a proportion of GDP						
Including privatisation proceeds	43 $\frac{1}{4}$	46 $\frac{3}{4}$	43 $\frac{1}{4}$	42 $\frac{3}{4}$	41 $\frac{3}{4}$	41 $\frac{1}{4}$
Excluding privatisation proceeds	43 $\frac{1}{4}$	47	44 $\frac{1}{2}$	44	42 $\frac{3}{4}$	42 $\frac{1}{4}$

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TABLE 3Prospects: summary

	Outturn 1985	Forecast 1986	Forecast 1987	Average errors from past forecasts*
A. Output and expenditure at constant 1980 prices (percentage change on year earlier):				
Domestic demand	3	3½	3½	1
of which:				
Consumers' expenditure	3½	5	4	1½
General Government consumption	½	1½	1½	1
Fixed investment	2	2	2½	2½
Change in stockbuilding (as per cent of level of GDP)	½	0	½	½
Exports of goods and services	6	1	3	2½
Imports of goods and services	3	5	4½	3
Gross domestic product: total	3½	2½	3	½
manufacturing	3	0	4	2½
B. Balance of payments:				
Current account (£ billion)	3½	0	-1½	3
C. Inflation:				
Retail prices index (percentage change Q4 on Q4)	5½	3½	3½	2½
	1985-86	1986-87	1987-88	
Deflator for GDP at market prices (percentage change on year earlier)	6	3	3½	2
D. Money GDP at market prices (percentage change on year earlier):	9½	5½	7	1½

Source: Forecasts for 1986 and 1987 and average errors on past forecast published in Autumn Statement Table 1.14.

* Errors relate to average differences (on either side of central figure) between forecast and outturn: relevant to forecast for next calendar or financial year. For method of calculating these errors, see 'Economic Progress Report' June 1981. Margins of error based on forecasts made in ten years 1975-1984. Errors after adjustment for effects of major changes in fiscal policy were excluded from forecasts.