

Ref. A089/2976

PRIME MINISTER

CABINET: 1989 PUBLIC EXPENDITURE SURVEY

Paper by the Chief Secretary: C(89)13

CONCLUSIONS

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

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

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

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

The Chief Secretary's paper

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

The Chancellor's Statement

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

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

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

Subsequent discussion

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

Business Investment 92

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

Presentation and next steps

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

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

10. You may also wish to emphasise:

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

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

HANDLING

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

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

R.R.B.

ROBIN BUTLER

14 November 1989

● TABLE I : SURVEY OUTCOME

	1989-90 [†]	1990-91	1991-92	1992-93
Outcome on programmes	165.9	181.0	191.3	199.4
Reserves	[1.3]	3	6	9
Privatisation proceeds	4.25	-5	-5	-5
New Planning Total	161.7	179.0	192.3	203.4
Add LA self-financed spending	13.2	12.0	12.0	12.5
Add CG debt interest	17.3	15.5	14.0	13.5
Add other adjustments	4.1	4.5	4.0	4.5
Add back Privatisation proceeds	4.2	5	5	5
equals GGE (excl priv proceeds)	200.5	215.4	227.2	239.1
GGE (excl priv proceeds)				
% change in real terms	1.0	2.3	1.9	2.2
as % GDP	38½	39	38½	38½
1988 AS	39½	39	38½	(-)

[†] For 1989-90, plans are being monitored on old definition of planning total [outcome is £168.2 billion, compared with plan £167.1 billion].

Note For Survey period, there was an unpublished baseline for the new planning total, and local authority components. Only new levels for these will be published.

TABLE II : PUBLIC EXPENDITURE TRENDS

Real GGE (excl priv proceeds)
annual average % change

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

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

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

A1 STRATEGY AND MAIN ISSUES

Factual

(i) Overall objective of economic policy to create conditions for sustained economic growth through:-

- firm financial policies designed to bear down on inflation.
- supply-side policies to improve economic performance through creating an environment which encourages and rewards enterprise and initiative.

(ii) Main priority is progressively to reduce inflation and bring economy back to a path of steady growth.

(iii) Using all practical levers to this end Monetary policy is key lever against inflation, and will be kept as tight as necessary. It is supported by fiscal policy which is and will remain very tight.

(iv) No change in monetary policy Essential instrument is interest rates, which will be kept as high as necessary for as long as necessary in order to reduce inflation, with decisions guided by a range of monetary indicators including growth of MO in relation to target range, and exchange rate.

(v) Firm exchange rate is needed to defeat inflation, since a fall in exchange rate directly raises prices and reduces the discipline on UK industry. Some movement in exchange rate bound to happen, but Government does not intend to allow depreciation to undermine fight against inflation.

(vi) Fiscal policy Set at Budget time. Fiscal stance is very tight, and will remain tight.

(vii) Fiscal prospects Now forecasting PSDR for 1989-90 of £12.6 billion - £1.2 billion lower than in FSBR forecast. Would be slightly smaller surplus than in 1988-89, but still second largest on record. Excluding privatisation proceeds, projected surplus in 1989-90 (£8.3 billion) larger than in 1988-89 (£7.3 billion) and largest on record.

(viii) Public Expenditure Policy unchanged. Plans maintain downward trend over time in ratio of public spending to GDP while value for money is constantly improved.

(ix) Public Expenditure Plans

- General government expenditure (GGE), excluding privatisation proceeds, expected to be 38½ per cent of GDP in 1989-90 - lower than 39½ per cent previously forecast. Down from 46½ per cent in 1982-83.
- Some increase in GGE/GDP ratio expected in 1990-91, from unexpectedly low figure this year. But downward trend in ratio expected to continue over time.

- GGE/GDP ratio for 1990-91 (39 per cent) and 1991-92 (38½ per cent), as in 1988 Autumn Statement.
- By 1992-93, GGE/GDP ratio should decline to 38½ per cent, lowest level since 1965-66.
- Average growth rate in GGE in real terms 1½ per cent from 1988-89 to 1992-93, same as average growth rate from 1988-89 to 1991-92 in 1988 Autumn Statement.
- Outturn in 1989-90 is £1.1 billion over plan, (old definition of planning total) but more than accounted for by local authorities (£2½ billion), and privatisation proceeds (£½ billion).

(x) Spending in Priority Areas

- Substantial real growth in spending in priority programmes over past five years made possible by declining requirements elsewhere, greater efficiency and falling debt interest burden.
- New plans show further real growth in spending on priority programmes. Extra money for NHS, roads, rail, homelessness, disabled, higher education.

(xi) Industry Act Forecast

- Demand growing at unsustainably high rate through 1987 and 1988. Following policy tightening, has slowed in 1989. Forecast to slow further in 1990.
- GDP growth projected to fall from 4½ per cent in 1988 to 2 per cent in 1989. Forecast to slow further to 1½ per cent in 1990.
- Current account deficit now forecast at £20 billion for 1989. Reduction to £15 billion forecast for 1990, as demand slows.
- RPI inflation peaked in May at 8.3 per cent. Forecast at 7½ per cent in 1989Q4. Reduction to 5½ per cent forecast for 1990Q4, as inflationary pressures ease.

(xii) Autumn Statement and MTFS

Money GDP path in Autumn Statement is higher than in 1989 MTFS. Reflects higher GDP deflators.

	Percentage growth on previous financial year				
	1988-89	1989-90	1990-91	1991-92	1992-93
<u>Money GDP*</u>					
FSBR	11	7½	6	5	5½
Autumn Statement	10½	8½	7	6½	5½

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

(xiii) National Insurance Contributions

- no change in main Class 1 contribution rates.
- lower earnings limit (LEL) and upper earnings limit (UEL) both raised, consistent with statutory link set between LEL, UEL and basic pension.

DefensiveMonetary and Fiscal Policy

(i) If inflation so important, why was it allowed to rise in first place? Re-emergence of inflationary pressures the result of two years of exceptional growth in demand on scale which no-one expected. Pressures evident both in rising domestic prices and in deterioration of current account. Rise in inflation over past two years a worldwide phenomenon - not just in UK.

(ii) Rise in inflation result of lax monetary policy? With benefit of hindsight, accept that policy too loose at end 1987 and beginning of 1988. Represented authorities response to stock market crash, when policy relaxed - both in UK and abroad - in order to avoid threat of major collapse of confidence. On balance of risks as then appeared, was right to relax policy.

(iii) If policy is firm exchange rate, why has it been allowed to go down? Bound to be some movement in exchange rates, but £ still around same level as it was in 1987 and above level of three years ago [average rate in 1987: 90.1 ERI, DM 2.94, \$1.64. Rate in 1986Q4 - low point, and three years ago - 85.1 ERI, DM 2.87, \$1.43]. Tight budgetary and monetary policies designed to keep exchange rate firm.

(iv) Should join ERM to stabilise exchange rate? Joining ERM not a panacea. Would still need to use interest rates to control inflation. Government has made it clear that will join ERM as part of Stage One of Delors prescription for EMU, which has been agreed.

(v) Interest rates not enough - need more policy instruments? Government is using all practical levers at its disposal to bear down on inflation. One of these is fiscal policy. Fiscal stance is tight, and will

remain tight. Credit controls would be ineffective in today's sophisticated financial markets and unfair.

(vi) Should announce now that there will be no tax cuts in next Budget? Decisions on taxation are always announced in annual Budget; no reason to depart from this practice. Fiscal stance is at present very tight; PSDR of 2½ per cent of GDP forecast for 1989-90.

(vii) Mini-Budget needed for take strain off interest rates? Fiscal stance very tight. [No case for emergency measures.] Fiscal stance for 1990-91 will be set in 1990 Budget, in usual way.

(viii) Money GDP growth overshooting MTPS again? Government has demonstrated willingness to set interest rates at whatever levels required to defeat inflation. Raising of interest rates is MTPS in action. But demand earlier in 1989 still stronger than anyone expected. Some overrun in money GDP inevitable.

Public expenditure

(ix) Ratio of General Government Expenditure (excluding privatisation proceeds) to GDP to rise in 1990-91 - now abandoned policy of reducing public spending as proportion of national income? Plans provide for ratios for 1990-91 and 1991-92 unchanged from 1988 Autumn statement. All that has changed is unexpectedly low projected outcome for 1989-90. Ratio for 1992-93 below 1989-90, and lowest since 1965-66.

(x) Large additions to spending plans show previous plans wishful thinking? Government has held to same GGE/GDP ratios as in last year's Autumn Statement, and is maintaining downward trend in ratio over time. Average real growth in spending of 1½ per cent per annum from 1988-89 to 1992-93 is same as envisaged for 1988-89 to 1991-92 in 1988 Autumn Statement.

(xi) Growth of new planning total 1989-90 to 1990-91 (5½ per cent) shows spending out of control? Largely reflects introduction of new system of local government finance in 1990-91. Huge swing from LA spending outside new planning total in 1989-90 to CG support for LAs, which is within it. (4½ per cent real increase in latter). Central Government's own spending shows real growth of 3½ per cent, reflecting substantial real increases in priority programmes. Affordable within even lower growth in GGE, because of declining debt interest.

(xii) How much added to public expenditure? Projected level of GGE in 1990-91 £5½ billion higher than in 1988 Autumn Statement. Comparisons with planning totals in previous plans not possible because of change in definition. Previous plans did not include forward figures for some key elements in new planning total such as grants to local authorities.

(xiii) Overspend in 1989-90 shows public expenditure out of control? Central government expenditure well under control. Excess of £1.1 billion more than accounted for by local authorities (£2½ billion, of which £1.6 billion capital). Reform of local government finance should put that right for future. GGE ratio in 1989-90 actually ¼ per cent lower than projected in 1988 Autumn Statement.

Industry Act Forecast

(xiv) Economic outlook worst for many years? Inflation coming down. Outlook is necessary preliminary to resumption of steady, sustainable growth. Rate of expansion in 1987 and 1988 unsustainable; now need pause for breath. Looked at over a run of years, forecast represents satisfactory medium term growth performance, in line with earlier MTFSS assumptions [eg 1987 MTFSS envisaged 10½ per cent growth over four years to 1990; if forecast right, outcome will be 12½ per cent growth].

(xv) Deterioration in outlook since Budget? Domestic demand and inflationary pressures proved stronger than expected at Budget time. Required further policy tightening; thus prospect is for more pronounced slowdown in output growth. Reflection of Government's determination not to accommodate inflationary pressures.

(xvi) Government policies bringing about recession? Not expecting output to fall. Forecast for 1990 is for year of slow growth. Whether or not output actually falls not something which Government can itself control. Depends on private sector behaviour, especially in labour market. Government's supply side reforms have greatly improved flexibility and dynamism of economy; should ease adjustment process.

(xvii) Still under estimating buoyancy of domestic demand/inflation/current account? Forecasts wishful thinking? Forecasts are central. But substantial uncertainties around forecasts - have always emphasised margins of error. Will be errors - but wrong to assume that will necessarily be in same direction as in recent past. Just as underestimated speed of upturn, by no means impossible that might underestimate speed of downturn too. Forecasts certainly not over-optimistic when compared with those of other forecasters. (For details of outside forecasts, see B1, Annex, Table 3.)

(xviii) Little evidence that domestic demand slowing down? Clear evidence that consumer spending has slowed down; retail sales virtually flat Housing market has cooled off markedly. Company spending takes longer to respond to policy tightening, but unmistakable evidence of slowdown in recent intentions surveys (eg CBI quarterly trends survey).

(xix) High interest rates for a year now, but no real progress in reducing inflation? Inflationary pressures will take time to subside. Clears signs that policy is working. Demand growth has fallen off. Underlying inflation has stabilised.

(xx) Current account deficit serious problem? Deficit certainly sign that economy has been overheating. Policies tightened sharply to deal with it; clearly being successful in reducing demand pressures. Not like 60s and 70s current account deficits which were counterpart of large public sector deficits. Rather result of private sector moving into deficit - which is unprecedented since early 1950s. Unlikely that private sector will stay in deficit for any length of time, though timing of return to surplus very uncertain. With firm policies in place, and plentiful investment opportunities in UK, financing of deficit should not be major cause for concern.

(xxi) Is forecast of current account over-optimistic? Forecasting reduction between 1989 and 1990 equivalent to just over 1 per cent of GDP.

Have had year-to-year improvements larger than this on number of occasions in past; eg 1968-9 (1.6 per cent), 1974-5 (2.4 per cent). [NB early 1980s not good example because of oil build-up.]

(xxii) Current account deficit a structural problems? Reflects run-down of manufacturing industry? Rise in manufacturing trade deficit reflects very strong growth in domestic demand, which sucked in imports. But only one quarter of manufactured imports are consumer goods; three quarters are for production and investment. Thus large part of deficit reflection of strength and confidence of UK manufacturing industry, which has seen very rapid rise in investment over past two years. Will help to reduce deficit in future, as new capacity comes on stream.

(xxiii) Forecast shows no fall in underlying inflation over next year? Forecast fall in RPI merely reflects mortgage rate effects? Forecast does show some reduction in inflationary pressures over next year. Those prices which are 'market-determined' are expected to moderate. Producer output prices forecast to be rising by only 4 per cent by 1990 Q4, as compared with 5½ per cent in 1989 Q4. Inflation rate for 'other' retail prices [ie retail prices other than food, nationalised industries, housing] forecast to fall to 4½ per cent in 1990 Q4 as compared with 5 per cent in 1989 Q4. Food price inflation also expected to moderate from current high rate. [Inflation rate for all items RPI higher because of forecast increases in those categories where prices are largely administered - housing and nationalised industry prices.]

(xxiv) Why is Government pushing up public sector administered prices [Nationalised Industry prices; housing - through rents, community charge], when policy objective to get inflation down? Nationalised Industry prices rises reflect need to finance substantial investment programmes. Not right that all of burden should fall on taxpayer, when it is industries' customers who will benefit. Community charge a matter for local authorities, not central government.

(xxv) What does forecast assume about mortgage rates/community charge? Not our practice to give more detailed forecasts than shown.

(xxvi) Unemployment to rise? Not practice of this or previous Governments to give forecast for unemployment. With slow-down in output growth, fall in unemployment could level off in coming months.

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(with copy of
Annex A
below)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 November 1989

CHIEF SECRETARY'S CABINET PAPER
ON PUBLIC EXPENDITURE

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

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

(PAUL GRAY)

Miss Carys Evans,
Chief Secretary's Office.

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C(89)

10 November 1989

Copy No

CABINET

1989 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, Treasury

This paper reports the outcome of my bilateral discussions with colleagues, which have been conducted, within the remit agreed by Cabinet in July, on the basis of the new definition of the planning total.

The Cabinet Remit

2. Cabinet agreed that the top priority was to defeat inflation, and that the objectives for the Survey should be:

- to maintain the downward trend in general government expenditure (excluding privatisation proceeds) as a proportion of GDP;
- to stick as close as possible to existing plans.

Progress in Bilaterals

3. At the start of the bilaterals, the bids totalled some £13 billion for 1990-91, rising to £17 billion and £23 billion for the later two years. Within these totals, we were already committed to increases in 1990-91 of over £4 billion.

4. The table at Annex A records the settlements I have reached with colleagues. Annex B provides a brief description of each settlement.

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

	1990-91	1991-92	£ billion 1992-93
Survey additions	5.7	7.5	11.1
Aggregate External finance for local authorities (GB) (excluding ILEA and low rateable value grants)	1.1	1.4	1.5
Transitional grants to local authorities	0.7	0.8	0.5
Total additions to programmes	7.5	9.7	13.2

Large as these increases are, they reflect a substantial scaling down of the bids, and some difficult decisions by a number of colleagues for which I am grateful. As a result we are in a position to achieve a satisfactory outcome, consistent with the remit we set in July.

6. We have still been able to find money to meet the cost of the NHS review proposals over and above provision for service growth, and to provide for substantial increases in road and rail investment. Other important initiatives which we have been able to fund include a package to alleviate homelessness, the introduction of student loans, new measures to help disabled people, a scheme of transitional relief for community charge payers, and extra police manpower. There is also provision for some less expensive, but politically attractive measures, such as a know-how fund for Poland, extra money for environmental research and protection, publicity for the recruitment of teachers, more spending on the arts, and accelerated introduction of improved training for nurses.

Capital spending

7. The new plans include extra provision for capital investment by central government amounting to some £1 billion a year. This includes increases for roads, hospitals, education and science and housing. There are also additions of £½ billion in 1990-91, rising to £½ billion in the later years, for those industries remaining in the public sector throughout the period. The total addition for investment in transport (by both central government and nationalised industries) comes to around £2 billion over the three years. The new plans also include provision for substantial support for local authority capital spending on schools, local transport schemes, and housing renovation.

Running costs and manpower

8. Running costs settlements imply increased spending on the Civil Service of 9½ per cent in cash (4.3 per cent in real terms) between this year and next. Though markedly lower than the bids, this is a higher percentage increase than in recent years, because rising provision for pay and new initiatives is not fully offset by efficiency improvements. The cash increases for 1991-92 and 1992-93 are 5 per cent and 4½ per cent.

9. Most departments have reached three-year settlements including planned efficiency gains averaging 2 per cent a year, with higher figures for most large executive departments. I look to colleagues to ensure that their departments' efficiency targets are carefully monitored and wherever possible exceeded. In future Surveys, we shall need to examine the outcome.

10. Civil Service manpower will remain well below 600,000.

1989-90 Outturn

11. The planning total for 1989-90 was set, on the old definition, at £167.1 billion. This included a Reserve of £3.5 billion. The estimated outturn is now £168.2 billion. Expected claims on the Reserve total some £4.6 billion; within this, additional expenditure by local authorities looks likely to account for some £2½ billion, lower privatisation proceeds some £½ billion and public corporations some £½ billion.

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

not had given the higher than expected inflation. R216.

Public expenditure totals

12. At Cabinet the Chancellor will inform colleagues of the level of Reserves which he believes will be required, and of his proposals for the planning totals to be adopted for the next three years. In the light of these proposals he will give an indication of the implications for the trend of GGE as a proportion of gross domestic product.

Conclusion

13. I invite colleagues:

- (a) to endorse the agreements I have reached on individual programmes
- (b) to note the running costs outcome, and the need to examine in future Surveys the delivery of efficiency improvements
- (c) to note the estimated outturn for 1989-90.

[NL]

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ANNEX A

9/11/89

1989 SURVEY: ADDITIONS TO PROGRAMMES

£ million

	1990-91 BASELINE	1990-91 CHANGE	1991-92 BASELINE	1991-92 CHANGE	1992-93 BASELINE	1992-93 CHANGE
Ministry of Defence	21,195	0	22,107	215	22,657	750
FCO - Diplomatic, Information, Culture	840	48	884	57	906	54
FCO - ODA	1,627	82	1,692	115	1,734	144
Intervention Board for Agricultural Produce	1,342	-151	1,518	-158	1,556	-121
Ministry of Agriculture, Fisheries and Food	575	53	589	67	604	82
Forestry Commission	77	1	80	3	82	5
Trade and Industry	1,302	-50	1,155	-35	1,184	-148
Export Credits Guarantee Department	122	120	61	9	63	-91
Energy	422	34	353	46	362	33
Department of Employment	3,888	-97	3,896	-215	3,994	-274
Department of Transport	2,647	425	2,725	525	2,793	550
DOE - Housing	5,737	633	6,157	571	6,311	534
DOE - Other Environmental Services	1,193	234	1,225	158	1,255	160
DOE - Property Services Agency	-154	82	-193	21	-210	-50
DOE - Local Government	19,365	1,120	19,849	1,491	20,345	1,326
Home Office (inc. Charity Commission)	4,524	316	4,600	413	4,719	441
Legal departments	1,189	77	1,261	119	1,293	179
Department of Education and Science	5,824	782	5,932	870	6,081	878
Office of Arts and Libraries	456	38	486	37	498	46
Department of Health and OPCS	20,987	1,194	21,933	1,548	22,490	2,122
Department of Social Security	55,128	346	58,303	1,585	59,762	3,822
Scotland	9,181	479	9,490	530	9,727	601
Wales	4,133	307	4,247	321	4,354	330
Northern Ireland	5,656	296	5,867	362	6,013	442
Chancellor's Departments	4,328	257	4,538	316	4,652	457
Cabinet Office, Privy Council Office, etc	337	15	352	14	361	12
European Communities	1,950	-80	1,580	90	1,620	370
Nationalised industries	-396	915	979	532	1,002	512

ANNEX B

SUMMARY OF AGREED PROGRAMMES

		£ million	
	1990-91	1991-92	1992-93

Defence

	0	+215	+750
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1. The three-year settlement for the years up to 1991-92 agreed in the 1988 Survey has been confirmed. (The 1991-92 addition is a technical change, part of which represents sums due under the 1988 Survey agreement, while part is offset by reductions on other programmes). A new three year settlement covering 1990-91 to 1992-93 has been agreed. Defence provision increases by about £1 billion a year.

FCO - Diplomatic Wing

	+48	+57	+54
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2. Increases provide for additional visa work; continuing UK contributions to peacekeeping forces in Iran/Iraq and Angola; scholarships and exchanges; security; relocation; and overseas price movements.

FCO - ODA

	+82	+115	+144
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3. Increases provide for continued support for economic reform in Nigeria and for the know-how fund for Poland; increases in the Aid and Trade Provision; and additional multilateral and bilateral aid, including forestry initiatives.

IBAP

-151	-158	-121
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4. Reductions reflect IBAP's latest forecast of expenditure, taking account of UK and EC harvest information and the continuing process of reform of the Common Agricultural Policy.

Domestic Agriculture

+ 53	+ 67	+ 82
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5. Additions are mainly for demand led schemes (including salmonella and BSE slaughter and compensation), flood defence, the set-aside scheme to reduce arable production, a pilot scheme for reducing use of nitrates in sensitive areas, and MAFF departmental administration. Additions in Scotland provide for a rural enterprise programme and for rationalisation of agricultural research bodies. There are reductions in the net cost of chargeable advisory services to farmers, and of registration of pesticides and veterinary medicines. There are also savings from reduced frequency of brucellosis testing, reduced administrative support for the Potato Marketing Board, reduced grants for fishing vessels, and increased land sales.

Forestry Commission

+1	+3	+6
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6. Additions are for superannuation, forest recreational facilities, and land purchases, offset by savings on planting grants.

Trade and Industry

-50	-35	-148
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7. There is extra provision for space. There are reductions on regional development grants, the business development initiative (including regional enterprise grants), launch aid and innovation. There are increased receipts for English Estates.

ECGD

+120	+9	-91
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8. Changes result from changed assumptions about interest rates in the UK and abroad.

Energy

+34	+46	+33
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9. The additions provide for increases on nuclear decommissioning and waste management; extra expenditure (including R&D) on renewable energy sources and energy efficiency; and the setting up of the office for regulating the electricity industry following privatisation.

Employment

-97	-215	-274
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10. Reductions in Employment Training, the Youth Training Scheme, and the Enterprise Allowance Scheme reflect a tighter labour market and increased contributions from employers towards the cost of training young people. There is additional provision for the employment of disabled people, rationalisation of the Employment Service's office network, and for the new Training and Enterprise Councils.

Department of Transport

+425	+525	+550
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This excludes restructured industries - they are shown separately below. P. 116.

11. The settlement totals £1.5 billion over the three years. It is a substantial increase in the roads programme, as agreed by E(A): roads expenditure in 1990-91 will be 39 per cent higher than plans for 1989-90 and 80 per cent higher than for 1988-89. It will also enable DTP to fulfil its commitment to eliminate road

maintenance backlogs by 1992-93. In addition, the nationalised industry figures in paragraph 25 below include an extra £1.4 billion over the three years for transport.

DOE - Housing

+633 +571 +534

12. Additions provide for a £½ billion package of measures to ease homelessness, and substantial real increases in the Housing Corporation grant to support subsidised rented housing by housing associations. There are technical additions of nearly £½ billion a year (which do not affect GGE) resulting from the reform of the housing subsidy system for local authorities. Offsetting savings reflect higher New Towns housing receipts.

DOE - Other Environmental Services

+234 +158 +160

13. Additions provide more support for Urban Development Corporations (particularly for transport projects in London Docklands); increased local authority credit approvals for waste disposal and methane in landfill sites; the establishment of a Climate Change Centre; increased environmental research; and more resources for the HM Pollution and Planning Inspectorates.

DOE - PSA

Property Holdings	+39	+9	-53
Services	+43	+12	+3

14. For Property Holdings, additions provide for higher rents, major new works (including Parliamentary works), some estate rationalisation, and a further reduction in the backlog of maintenance. Reductions in year 3 reflect higher receipts. For Services, additions include IT capital expenditure, set-up costs of new design offices, and redundancy costs.

Home Office and Charity Commission

+316 +413 +440

15. The settlement provides for a 9 per cent real increase in expenditure on prisons in 1990-91 (with reductions below baseline in later years to reflect lower prison population projections); additional staff for the passport department, more measures to divert offenders from custody and new anti-drugs initiatives; and a 6 per cent real growth in police grant on current expenditure in 1990-91 including an additional 1,100 police officers.

Lord Chancellor's and Law Officers' Departments

+77 +119 +179

16. For LCD, additions allow for the resource implications of the Civil and Competition Policy Initiatives, rising workloads in the county courts, and higher costs of legal aid; higher accommodation charges (notably for the Crown court) and the rising cost of the court building programme, partly offset by a slow-down in new construction. For other legal departments, additions largely reflect the rising costs of major building projects.

Department of Education and Science

+782 +870 +878

17. The provision allows for increases between 1989-90 and 1990-91 of: 8 per cent for the Science budget on top of the large increase announced last year; 24 per cent for capital provision for local authority schools and colleges; and 9 per cent for higher education, to finance 27,000 more student awards than previously allowed for, an 8 per cent increase in the academic pay bill, and inroads into the backlog of maintenance work. The plans also allow for the cost of introducing top-up student loans in September 1990.

Office of Arts and Libraries

+38 +37 +46

18. A new three year settlement has been agreed, providing for a substantial increase in real terms between 1989-90 and 1990-91. There is also extra provision for the British Library's St Pancras project, to finance further construction work.

Department of Health and OPCS

+1194

+1548

+2122

19. Main additions provide for the knock-on effects of the 1989 pay awards to doctors and nurses; revised forecasts of demand-led expenditure on the Family Practitioner Services; continued growth in hospital activity in response to demographic and other pressures; the costs associated with implementation of the NHS Review; increases for hospital capital expenditure; and the likely cost of pay awards in 1990-91 to non-clinical staff.

Department of Social Security

Attributable to DSS	+398	+1640	+3889
Total Survey changes (including adjustments to rent rebate subsidy attributed to DOE and WO)	+346	+1585	+3822

20. The largest single factor explaining the increases in 1991-92 and 1992-93 is the impact of higher uprating assumptions. The underlying growth in expenditure is also important in 1992-93, particularly in expenditure on pensions and disability benefits (these increases were already in the baseline for the earlier years). Benefit increases for poorer families and poorer pensioners, and abolition of the pensioners' earnings rule require extra provision. Expenditure on community charge benefit will be

higher than on rate rebates. The net effect of changes in sickness and disability benefits will add to expenditure, particularly in the third year. Ten new measures have already been announced, helping ½ million sick and disabled people and carers, costing £100 million in a full year. The longer term impact, however, will be to constrain the growth in spending on these benefits as a result of the decisions to end the reduced earnings allowance and to phase out the additional pension paid with invalidity benefit. These increases are offset in part by the effects of lower unemployment. Estimating changes in the first two years also show savings. In addition, the Secretary of State has also decided to find savings through not uprating Child Benefit, through changes to statutory sick pay, and by tightening up the rules for recovery of maintenance from liable relatives.

Scotland

+479 +530 +601

21. Additions include formula consequentials of changes to English programmes (some £340/390/460 million). New provision also reflects higher receipts for the Scottish Development Agency; additions to the block for local authority capital expenditure on water services (for which there is no comparable provision in England and Wales following privatisation); and the cost of the local authority settlement announced in July and the move towards harmonising business rates with those in England.

Wales

+307 +321 +330

22. Additions are mainly the formula consequentials of English settlements (some £170/190/220 million) and the cost of the local authority current grants settlement announced in July.

Northern Ireland

	+296	+362	+442
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23. The additions include the cost of privatisation of Shorts, and increases in social security provision as a result of estimating changes and revised economic assumptions. The Northern Ireland Block will also receive the normal formula consequentials of increases in comparable programmes in GB; these are expected to amount to some £175 million in 1990-91, £200 million in 1991-92, and £220 in 1992-93.

<u>Inland Revenue</u>	+194	+174	+214
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<u>Customs and Excise</u>	+ 39	+ 54	+105
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24. Extra provision reflects increased workloads, including on independent taxation, the Channel tunnel and 1992. There are additions for information technology and for relocation of posts from London. The plans take account of substantial efficiency gains. Provision for payments of life assurance premium relief and mortgage interest relief to non-taxpayers is increased.

Nationalised Industries

	+915	+532	+512
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25. Increased provision for British Railways and London Regional Transport will allow substantial new investment, including safety improvements. Rail fares are broadly assumed to rise in 1990 by up to 3 per cent in real terms. No provision has been made for new railway lines in London; but given satisfactory contributions from developers and a Bill laid by 20 November, provision for an extension of the Jubilee Line into Docklands will be met from the Reserve. The gross cost of this project will be £541 million in the Survey period. Increased provision for Post Office supports investment to deal with increasing traffic volumes and improve quality of service. Reductions in year 3 on British Shipbuilders reflect disposal of remaining yards and assets. Electricity prices are planned to rise by 6½ per cent in 1990-91.

Central government support for local authority current expenditure

26. Revenue Support Grant and payments of non-domestic rates will be around £1½ billion higher in GB than the 1989-90 levels, as adjusted for functional changes. This reflects the introduction in England and Wales in April 1990 of the new community charge system. There are also significant increases in a number of specific grants to local authorities within departmental programmes. Total central government support for local authority current expenditure will rise further in the two later years. An additional £670 million has been provided in 1990-91 for transitional grants to phase in the new community charge system, rising to some £800 million in 1991-92, reflecting the costs to the Exchequer of the new area protection grant which will replace the area safety net.



